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TODAY:
Fresh Hopeless After Page 12
STAGE

2 Big Parties In Germany Warming to A Coalition

Socialists' Wish List Might Find Support From Conservatives

By John Vinocur
International Herald Tribune

BONN — Highly possible to probable: On the scale of political likelihood, a Grand Coalition government coming out of Germany's elections in September is now regarded here as a reality with more current momentum than any other potential outcome.

Influential members of both the Social Democrat (SPD) and Christian Democrat (CDU) parties have said so privately over the last few days. They agree that the SPD's Gerhard Schroeder would be chancellor in a government made up of the country's two big parties, and they believe that most of their voters would feel comfortable with rather than betrayed by a decision to meld two seemingly opposing political orientations into a single German voice.

But apart from sensing the emergence of the idea, they cannot say with any measure of certainty just what a Grand Coalition would mean for Germany, its allies, and Europe.

On one hand, a Grand Coalition could smother the expectation of change carried by the elections, while slowing the process of government through the prospect of political posturing and exhausting compromise. Public debate within the mainstream could dampen to a self-conscious whisper, and a vast, open stage be provided for the forces of Germany's extremes. In the most general sense, Germans hardly regard broad coalitions as an optimal democratic solution for tough problems well short of emergency status.

In a more favorable analysis, Mr. Schroeder, campaigning as the candidate of the New Middle, could find in a coalition with the CDU the support he needs to make the changes in labor and social legislation he says Germany must have to break free of double-digit unemployment, and to become a pole of innovation and new investment. In the eyes of the rest of the world, a Grand Coalition government in Germany could be more reliable and predictable than one left to depending on the votes of the Greens, and their anti-business, anti-NATO, anti-establishment instincts.

But because there is a precedent for it — both big parties participated in government from 1966 to 1969 — the Grand Coalition idea has the allure of reasonableness, if no politician runs

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Afghan Earthquake Toll Is Now Feared to Be 5,000

Afghans carrying a girl injured in an earthquake to a UN helicopter on Tuesday. Copters shipped in tons of building supplies, trying to aid villages ripped apart by the earthquake Saturday that killed as many as 5,000 people in the northern part of the country. The quake triggered landslides that split mountains and swallowed villages.

In Kashmir, the Shooting Never Stops

India and Pakistan Skirmish Over Villages

By Molly Moore
and Kamran Khan
Washington Post Service

CHOKOTHI, Pakistan — Abdul Ghafour and his science pupils know the routine all too well: When the shooting starts on the hilltop above their high school, a teacher blows the warning whistle, and everyone instantly hits the ground.

Further down the mountain, tailors and food vendors sprint to shutter their shops and, in a matter of seconds, the one-street village of Chokothi is a ghost town.

"We get so scared we cannot sleep at night," said Ghulam Rassul, a Pakistani shopkeeper who sometimes can spot the Indian troops on the green hillsides above the town. "You can't believe the shooting. Life has become miserable."

Chokothi's main street dead ends a few hundred meters from the "line of control," the barbed-wire and searchlight barricade that marks the disputed

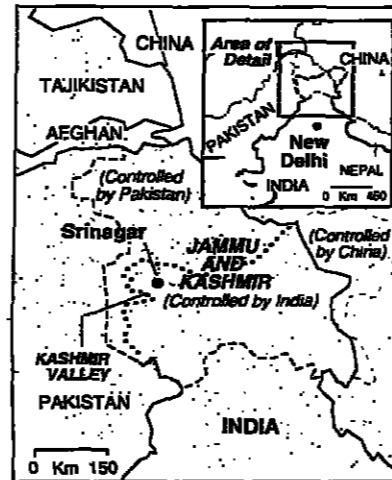
border between Pakistan and India in the former princely state of Kashmir.

Today, in the aftermath of a series of nuclear explosions by the bitter rivals, who have already fought two wars over this border, there is no place on earth with greater potential for triggering a nuclear holocaust.

It was here, to this 360-kilometer (225-mile) stretch of mountain terrain where tens of thousands of Pakistani and Indian troops face off in daily barrages of artillery fire, that Pakistan's top military leaders rushed in the days following India's explosions of its first nuclear tests in 24 years.

Border tensions were so high that the hot-line between military generals in India and Pakistan — established for communications during potential crisis situations — were suspended, Pakistani sources said.

On May 25, after two days of consultations with commanders at Chokothi and other outposts, the head of Pakistan's army, General Jehangir



Karamat, met in an urgent session with Prime Minister Nawaz Sharif at the Pakistani leader's residence.

He told Mr. Sharif that if Pakistan did not respond quickly with a nuclear explosion of its own, that he believed India

See KASHMIR, Page 10

Habibie, Saying I'm Here, Vows to Serve Out Century

By Seth Mydans
New York Times Service

JAKARTA — Presenting himself as the reformer Indonesians have been calling for, President B. J. Habibie laid out an intricate election timetable Tuesday that he said would keep him in office at least through the end of the century, despite widespread calls for a quick handover over power.

Also defying the national mood, he called on Indonesians to look to the future rather than to the past and not to engage in "Wild West" justice by trying to seize the wealth of his predecessor and mentor, Suharto.

In his first newspaper interview since taking office after Mr. Suharto's sudden resignation two weeks ago, Mr. Habibie spoke enthusiastically about his hopes to lead the country out of its political and economic crisis, but he still seemed amazed to be president.

Gesturing across his broad desk and clapping his hands in broad astonishment, he said, "You know, I was always sitting on that side. The president was always here. Now I am here!"

At one point he had to be reminded by an aide not to refer to Mr. Suharto as the president. "You are the president," the aide said.

Mr. Habibie, who for 20 years was Mr. Suharto's minister of research and technology, has little administrative ex-

perience and little base of power, and had never been seen — even by Mr. Suharto — as a potential president. Most Indonesians view him as a transitional figure, and powerful forces are pressing him to step out of the way for a new government. But Mr. Habibie said there was no quick and constitutional way to transfer power. He also refused to rule out the possibility that he would run for election to a new term.

Mr. Habibie spoke with a mixture of deep affection and veiled criticism for the man he said he had known since childhood and considered to be one of his best friends, but who now appeared to have turned his back on him. Mr. Suharto, he said, had not spoken to him since he became president.

See HABIBIE, Page 10



The Jakarta military police chief, Colonel Hendardi, being mobbed by reporters Tuesday after he said 18 troops, including a Lieutenant colonel, would be court-martialed in the May 12 shooting deaths of six students during protests that helped lead to the fall of President Suharto.

Ex-Beijing Official Speaks His Mind

An '89 Scapegoat, He Says an Undemocratic China Could Pose Danger

By Steven Mufson
and John Pomfret
Washington Post Service

BEIJING — Four days after the police told him that his political rights had been restored, a senior Chinese Communist Party official imprisoned since 1989 for political reasons fired a broadside at the party Tuesday for failing to undertake significant political reform.

In an exclusive interview, Bao Tong, who was arrested May 28, 1989 — just days before soldiers and tanks crushed student-led protests in Tiananmen Square — warned that an increasingly powerful and undemocratic China could be a danger to the rest of Asia.

He challenged Communist Party officials to prove their commitment to the rule of law by letting him speak his mind after spending seven years in prison and two more under restrictions.

"My goal is to be a very good Chinese

citizen, a Chinese citizen with the right to speak his mind," said Mr. Bao, 65, who was chief of staff, speech writer and senior political adviser for Zhao Ziyang, who was ousted as prime minister after the Tiananmen crackdown.

"I am ready to take my ideas and speak out about them," he said. "Free

speech is a very important contribution to building China, and I believe my freedom of speech will be protected by law and by the government."

Mr. Bao, who was made a scapegoat for the 1989 upheaval that threatened the control of the Communist Party, said: "I want to test their promises. So if I meet any problems, it shows their promises are fake."

But in a note of realism about the

government security surveillance and the cautious pace of political change in China, Mr. Bao said: "I hope that my telephone works for a while. I hope that my family has no problems. I hope that I don't have an accident."

Though less well known internationally than such recently released prisoners as the 1989 student leader Wang Dan or the veteran dissident Wei Jingsheng, Mr. Bao has much more influence within China, and especially within the top ranks of the ruling Communist Party.

Mr. Bao was a member of the party's powerful organization department in the 1950s and 60s, jailed and sent to the countryside during the Cultural Revolution, then returned to the core of people around the senior leader Deng Xiaoping in 1977, when China's economic reform period began. He later became a member of the Central Committee of the Com-

Yeltsin Asks Help On Sick Economy

He Meets With Russia's Mighty As Ruble's Fall Imperils Reform

By David Hoffman
Washington Post Service

MOSCOW — Buffeted by financial storms, President Boris Yeltsin summoned Russia's leading business tycoons to the Kremlin on Tuesday, appealing to them to settle their quarrels and help him stave off further deterioration in the stock and bond markets.

"Our meetings are rare, only when things become too bad," he said. "The economy starts to crack and a flight of foreign investors begins."

It was Mr. Yeltsin's first meeting in months with the group of financial magnates, some of whom bankrolled his re-election campaign two years ago.

The Kremlin said later that the business executives, including the top financial, industrial and energy barons in the country, had agreed to work together to calm the uncertainty and chaos of recent days.

No concrete measures were announced. But such a pledge of unity is rare given the internecine battle among the group of tycoons that has raged since a bitter privatization contest over a telephone company last autumn.

"Everybody is interested in getting out of this situation with minimum losses," said Mr. Yeltsin's spokesman, Sergei Yastrzhembsky.

In the last two and a half weeks, the Russian stock market has nosedived, and the government raised short-term interest rates to 150 percent in an effort to keep capital from fleeing.

Mr. Yeltsin and his new prime minister, Sergei Kiriyenko, have vowed to resist a ruble devaluation.

Russia has also been shaken by reverberations from the Asian financial crisis and a liquidity squeeze in the major domestic banks.

The main Russian Trading System stabilized Tuesday, closing 12 percent higher, at 192.75, but the market has fallen sharply from last year's peak of 571.6 on Oct. 6.

Mr. Yeltsin, wagging his finger at the financiers and insisting that they "pay attention," implored them not to pull their money out of the Russian markets.

"When national investors are not investing their money, the foreign ones leave," Mr. Yeltsin admonished them. "If you want foreign investors to invest, you should invest your own money as well. It turns out that foreign investors know the situation better and are not investing their money. Should you invest? This is a question to think about."

In fact, however, most of the Russian

tycoons are heavily invested in businesses here. "All their money is in Russia," said Vladimir Gusinsky, a media and entertainment mogul.

Anatoli Chubais, head of the electricity monopoly, United Energy Systems, said the business executives had agreed to set aside their recent feuds.

The group — while united behind Mr. Yeltsin in 1996 — broke into warring camps last year over the telephone deal. The magnates control most of Russia's major media outlets as well as financial and industrial empires.

"There are all kinds of grudges, some mutual suspicions, and now when the situation is really highly complex, the most important thing that was achieved at this meeting was an accord to put off disagreements," Mr. Chubais said.

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Airline Strike In France Set For a 3d Day

Courtesy by Our Staff From Dispatches

PARIS — Air France warned travelers they faced another difficult day Wednesday, saying a pilots' strike would force it to cancel most of its flights for the third consecutive day.

Pilots and the airline's management resumed talks Tuesday as Transport Minister Jean-Claude Gayssot urged the pilots not to hold France and the World Cup soccer tournament hostage.

Air France officials said the airline on Wednesday would cancel 83 percent of its long-distance flights and 70 percent of its medium- and short-range flights from Roissy-Charles de Gaulle Airport, and 67 percent of its flights from Orly Airport. A comparable number of flights were grounded at the Paris airports Tuesday.

Other airlines flying in and out of France have been unaffected, and some added flights to try to take up the slack.

But ground personnel at Terminal 1 at Charles de Gaulle airport added to the turmoil when baggage-handlers and the staff in charge of air-conditioning walked off the job in protests over pay

See STRIKE, Page 10

Milosevic Starts Sweep To Crush Kosovo Rebels

By Chris Hedges
New York Times Service

BELGRADE — President Slobodan Milosevic of Yugoslavia has started a sweeping campaign to wipe out a separatist rebel movement in the Serbian province of Kosovo, according to senior North Atlantic Treaty Organization officials and Western diplomats.

The campaign involves several thousand heavily armed special police officers and soldiers backed by artillery batteries. It has escalated swiftly over the last few days and seems set to extinguish the faint hope of a negotiated settlement between Serbs and Kosovo's ethnic Albanian population.

If the conflict spilled across the border, as many now fear, it could draw the region into a war. Neighboring Albania

is sympathetic to the separatist struggle in Kosovo, as is a restive ethnic Albanian minority in Macedonia.

General Wesley Clark, the American who is supreme commander of NATO forces in Europe, in an interview at NATO headquarters in Belgium on Friday.

Albania warns Milosevic. Page 7.

day, said, "NATO is watching the evolving situation in Kosovo with increasing concern as the conflict here has intensified."

He added: "There are increasing reports of the use of artillery and heavy weapons by the Serbs. We have heard reports of these weapons being used

See KOSOVO, Page 7

AGENDA

Army Assault Kills Algiers Rebel Chief

ALGIERS (AP) — Algerian security services said Tuesday that the leader of the Armed Islamic Movement in Algiers, Mohammed Kebaili, had been killed in an army operation in the capital's suburbs.

Mr. Kebaili, known as Ayachi, was killed along with two other men and a woman in his organization when special army units stormed an apartment in an Algiers suburb Tuesday, an official statement said. It said two children with the group had been killed, as had a member of the security services that had surrounded the building before the army assault.

The security forces said Mr. Kebaili had been implicated in the massacre of 400 villagers last year.

The Algerian press reported recently that Mr. Kebaili had been appointed the movement's head for Algiers to replace Hocine Flicha, who joined a splinter group that has condemned atrocities against civilians.

The IHT on-line www.iht.com

Weighs Report
sacres in Congo

Blast Kills
Hurts Dozens
In Iran

THE AMERICAS

Rocky Mountain Low: Colorado Schools Begin Going by the P.C. Book

By Tom Kenworthy
Washington Post Service

GOLDEN, Colorado — Ordinarily, Colorado is a relatively relaxed place.

People here rarely get anywhere on time, for example. Go to the theater and half the seats are empty two minutes before show time. School events always start a few minutes late.

Nobody dresses up, either. One can buy a \$4,000 mountain bike on almost any street corner, but fancy clothing stores are pretty scarce.

Folks are also a lot less obsessive about work than on the East Coast. The weekend starts about noon Friday as people stream out of Denver and

head west on Interstate 70 with their skis and bikes strapped to the roofs of their cars. Mark Obmascik, a writer for the Denver Post, summed it up the other day as two journalists were playing hooky at a Rockies baseball game: Colorado is the only place in the world, he said, where people get up earlier on weekends than during the week.

So it has been a little disturbing for people here to see the recent outbreak of uptightness in Colorado schools.

It began in February, when a 10-year-old, fifth-grade honor student from Longmont, Shannan Colesett, was expelled from school after she inadvertently took her mother's lunch to school. The lunch had a small paring knife in it that her

mother used to peel apples. Shanon dutifully reported it to her teacher. One thing led to another, and before long Shanon was expelled because of a state law mandating expulsion for children who bring weapons to school.

Then, this spring, a girls' relay team from Ramon High School was disqualified from competing in the state finals because one of the four runners had a white sports bra while the three others had black sports bras.

This violated a rule requiring uniform uniforms.

This month, it has become an epidemic.

A school principal in the posh Cherry Creek school district was placed on leave because he allowed some junior high students sips of wine at

a supervised dinner during a trip to Paris.

Parents had signed waivers allowing the cultural experience before the trip, but the district's "zero tolerance" policy for drugs and alcohol still kicked in. After dozens of parents protested the disciplinary action, the district superintendent said he was reconsidering.

In Glenwood Springs, 11-year-old Samantha Bruno, who is being schooled at home, was denied permission to attend a dance at Glenwood Middle School. The principal, Jim Phillips, said dances were open only to students who have never had disciplinary problems, and since Samatha was being schooled at home he had no way to assess whether she met that standard.

And in the Denver suburb of Arvada, four high

school students who wanted to wear a bit of kente cloth — an African fabric used by black Americans to boast of their heritage — over their graduation gowns were denied permission by the school. Two of them took the issue to federal court, but lost there as well when Judge Richard March — who presided over the Oklahoma City bombing trials of Timothy McVeigh and Terry Nichols — sided with the school district.

All of this seemed a bit much to the Denver Post, which last week editorialized against "political correctness carried to the point of preposterous perfection."

Instead of "slavish adherence to rules," the paper suggested, officials should exercise some common sense.

Fund-Raising Champion of Congress

Firms Fill the Coffers of D'Amato, the Senate Banking Chairman

By Clifford J. Levy
New York Times Service

NEW YORK — The amendment was brief, so it attracted scant notice when Senator Alfonse D'Amato helped tuck it into a bill he was shepherding through the Senate as chairman of the banking committee. But the provision, which weakened a consumer protection statute governing mortgages, was decidedly important to one company.

Mr. D'Amato agreed to support the

provision in late 1995 after lobbying by MBNA Corp., one of the biggest U.S. issuers of credit cards. The company is also one of the New York senator's biggest benefactors, having channeled more than \$500,000 in recent years to campaign committees that he leads.

Throughout his career, Mr. D'Amato, whose hearings two years ago began the torrent of revelations about Nazi gold accepted by neutral European countries during World War II, has been a tireless fund-raiser, a politician who works the

phones with a barker's gusto. But since taking over the chairmanship of the banking panel in 1995, he has made his previous fund-raising seem almost pedestrian, harvesting millions of dollars from individuals and companies in the financial industry that, like MBNA, have a stake in legislation that as chairman he can control with a pen stroke.

The money not only has filled Mr. D'Amato's Senate campaign account, but also has enriched the New York Republican State Committee, strengthening the senator's formidable political network and reinforcing his status as the state's dominant Republican.

There is nothing unusual or illegal about members of Congress reeling in contributions from interests they oversee. But Mr. D'Amato has far exceeded the fund-raising of any other senator through his positions as chairman of the banking committee, which oversees much of the financial industry, and as a member of the Senate Committee on Finance, which governs tax legislation.

In MBNA's case, he has unsuccessfully supported its efforts to revamp the consumer protection statute, which in most instances bars mortgage providers from paying fees to get referrals. The company says the statute hinders its expansion in the mortgage business. Consumer groups say lifting the ban would drive up the cost of buying a home.

But MBNA is not the only financial behemoth that has given heavily to Mr. D'Amato. Others — including Travelers Group; Bear, Stearns & Co.; Goldman, Sachs & Co., and Beneficial Corp. — have also directed the kind of large sums to his campaign committees that were once the sole province of the national parties. "That facilitated entrance to the senator," said Dave Williams, chairman of Alliance Capital Management, referring to contributions to Mr. D'Amato's committee. Alliance, a New York money management firm, held a 1997 fund-raiser for the senator as he was successfully sponsoring a proposal for a tax break provision the firm wanted.

Mr. D'Amato has raised more than \$17 million, far more than any other Senate candidate this year, as he tries to overcome a strong Democratic challenge and win a fourth term. The only other congressional candidate to come close is a Democrat who wants his job, Representative Charles Schumer of New York, who serves on the House banking committee and has also benefited from Wall Street's largesse. He has raised more than \$10 million.

Mr. D'Amato faced ethics inquiries over ties to donors earlier in his career, but no serious wrongdoing was found. He has not come under official scrutiny since he became head of the banking panel, formally called the Committee on Banking, Housing and Urban Affairs.

But some campaign finance specialists say he has a pattern of seeking money from firms with interest in committee business. They contend that he has used the Republican State Committee to accept big donations because its accounts are subject to little regulation.

Mr. D'Amato declined to be interviewed. His aides said he had become the biggest fund-raiser because donors were pleased by his stewardship of the committee and his overall record.

"Clearly, the people who contribute to Senator D'Amato support the principles of the senator, not the other way around," said Lisette McSoud Mondello, a D'Amato spokeswoman.

Senators Stall Bill On Bias by Police

WASHINGTON — A veteran lawmaker calls the infraction DWB: driving while black. And earlier this year,

(AP)

Former President Gerald Ford urging the Republican Party to rein in its "extreme right" before the next presidential election: "We should not permit one element to dictate policies within our party; if we do, the extreme right will doom our party to election defeat."

(AP)

Away From Politics

Defying predictions that higher speed limits would mean more carnage, the number of deaths on California's roads dropped in 1997 to 3,671 people, the lowest level in 38 years, state officials reported. A major factor in the steady decline was the corresponding falloff in highway deaths attributed to drinking and driving.

(LAT)

The American Heart Association has declared obesity to be a "major risk" factor in heart attacks, adding it to a list that includes smoking, high blood pressure, high cholesterol and a

(AP)

sedentary lifestyle. Before the announcement in New York, the association had been listing obesity as a "contributing risk" factor for heart attacks.

Prostate cancer deaths appear to be declining because of a blood test that detects the disease early. Studies released at the annual meeting of the American Urological Association in San Diego show the benefits of a test to detect elevated levels of prostate-specific antigen, or PSA, which can be an early signal of the cancer.

(AP)

Philadelphia residents were without public transportation as transit workers began a strike after going more than two months without a contract.

(AP)

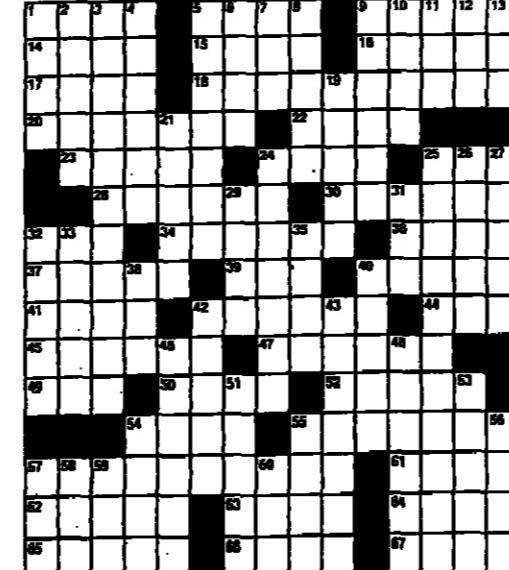
CROSSWORD

ACROSS
4 Be wide open
5 Square fare?
6 Comm. alias
14 Port of "The Plague"
15 Title Me doll
16 Capital west of Hapdong
17 Like jokers, often
18 Steel a pass?
20 Formidable Joe
22 Newcastle's river
23 Atty-to-be exams
24 Lifesaving equipment

Solution to Puzzle of June 2

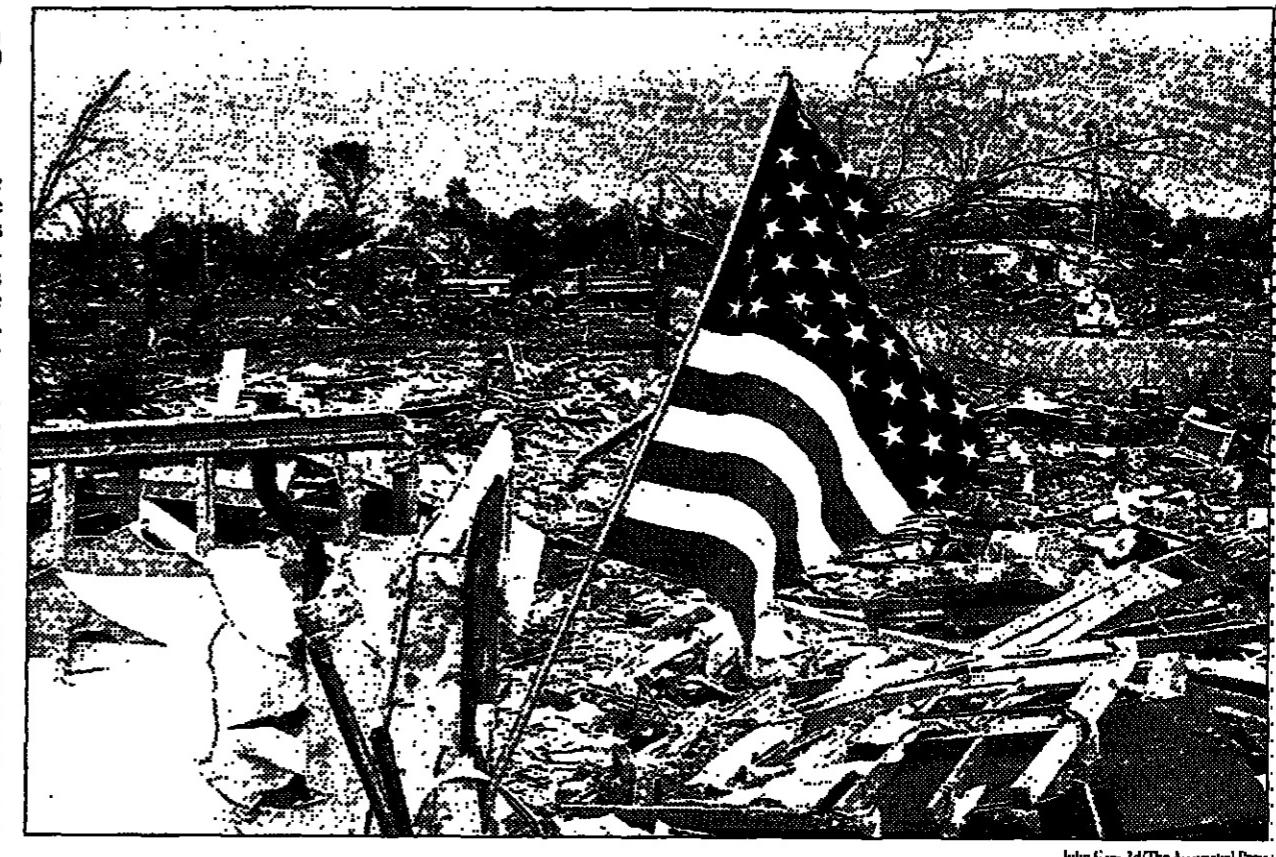
DOWN
1 Dress for a ball
2 The Little Mermaid
3 Steel coils?
4 Make lovable
5 TV actress Gilbert
6 Yales
7 Bowling alley Infants
8 Game of chance

25 Popular cooking spray
26 Word said with a wave of the hand
28 Fabulous fur
29 Paving stuff
30 Unruly crowd
31 Swenson of "Benson"
32 For the birds?
33 Tabard inn order
40 Understood
41 Big name in electronics
42 Beethoven's Third



Puzzle by Karen Hodge

See our International Franchises every Wednesday in The Intermarket



John Gaps III/The Associated Press

After Tornado, a Town With Only a Past

By Jon Jeter
Washington Post Service

SPENCER, South Dakota

— Don Mentele made his life and living here. He grew up here, married here, started a family here, got up every day and went to work right here in this prairie hamlet that is no more.

Although Mr. Mentele and his family escaped the weekend's devastating tornado unharmed, the storm took everything that was familiar to them: their home, the grain elevator where Mr. Mentele worked, his children's schoolhouse, even the roadside diner where Mr. Mentele ate lunch.

Their town lost its post office, its fire station, its library and even its churches. And so while Mr. Mentele had planned only a few days ago to spend the rest of his life in Spencer, he now has no idea whether he will ever sleep another night here.

"We just don't know," Mr. Mentele said Monday, shaking his head as tractors hummed behind him, removing the wreckage and scattered rubble that is all that remains of Spencer.

"There's nothing left here but memories. Even if they do put everything back together."

Mr. Mentele's dilemma is shared by almost everyone here. The unanswered question that hovers over this community is whether Spencer, a cozy, comfortable town where the 300 residents all knew one another, will ever live again.

If you rebuild it, will they come back?

Shortly after the Clinton administration announced Monday that Spencer is eligible for federal disaster relief, the governor of South Dakota, William Janklow, said the state will indeed reassemble the town from wreckage left by a furious night tornado Saturday night that killed six people, injured more than 100 and razed most buildings.

The tornado here was part of a storm system that rushed through the Midwest, killing three people in Michigan and three in Wisconsin in addition to the South Dakota victims. But it was the deadliest part, perhaps killing a whole town.

"I can flat tell you this town will be rebuilt," Mr. Janklow said told reporters Monday at a news conference. But "will everyone who lives here now live here then? I don't know."

Physically, Spencer was not much to begin with, just a wide patch in the road founded in 1887. The farms here have been dying for years, and now, Spencer is largely a bedroom community for nearby Sioux Falls. The town revolves around its young blue-collar couples, their children and their aging par-

ents living in modest clapboard houses and trailer homes.

"This is just a small, lower middle-class town out in the prairie," Mr. Janklow said.

Spencer lies on a two-lane state highway that winds through sprawling, untouched prairie, glistening streams and soaring bluffs where cows graze.

The community of trailer parks and modest bungalows now resembles a colossal trash heap. Trees are decapitated and strewn with garbage, and utility poles lean toward one another like lean dancers. Trucks and cars are upturned like toys, and piles of splinters and torn sheets of metal sprawl as far as the eye can see.

When rescue workers arrived in Spencer after the tornado struck, a city council member managed to account for everyone in town, Mr. Janklow said. That brand of familiarity is largely what gives Spencer its charm. But it also fosters a sense of mortality. Small towns here and across the Midwest have been dying for years as the young pick up and move for good jobs and a future in the cities and suburbs, leaving behind an older population.

"It's really a nice little

town and I hope that people stay," said Johnny Howard, 51, a resident of Spencer for nearly half his life. "But you've got a lot of seniors and they're just too old to start all over again. And then you've got young people who are going to relocate to where the opportunities and jobs are rather than stick around here for the town to come back."

Mr. Mentele says that whether he stays depends largely on whether his employer, Spencer Grain, re-opens. The grain elevators were destroyed by the tornado. "If I don't have a job here, then I guess we'll have to go elsewhere," he said. "Our whole life was here, but there's no 'here' anymore."

Clean-up in Northeast

Residents in New York, New Jersey and across the Northeast began the arduous and often heartbreaking task Monday of cleaning up from tornadoes and fierce thunderstorms that cut a destructive path through the region. The New York Times reported.

From early Sunday morning to early Monday morning, storms flattened houses, felled trees, downed power lines and left two people dead in New York, where tornadoes touching down with winds topping 200 miles an hour (320 kilometers an hour) devastated several northern areas of the state.

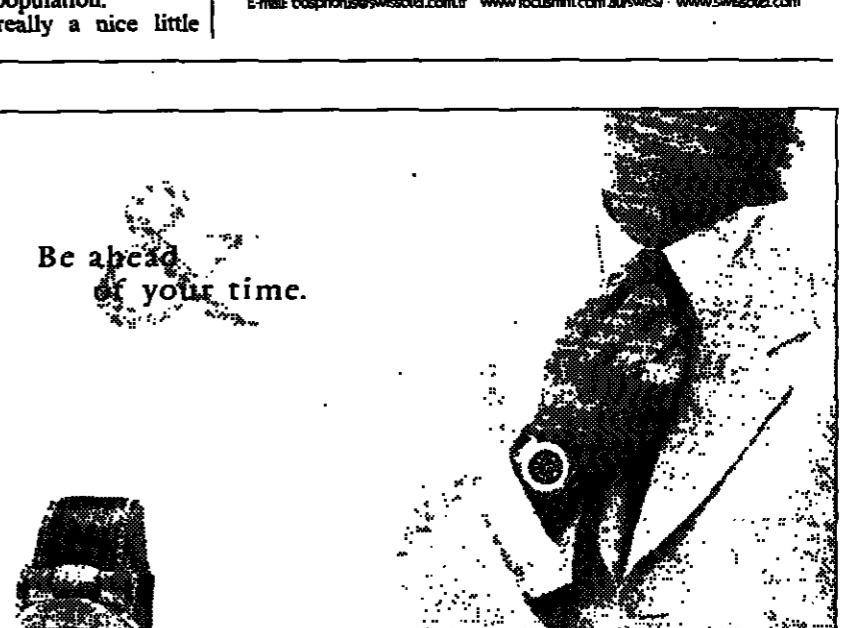
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ASIA/PACIFIC

The Chinese Dream: Home, Sweet Home

Economic Reforms Focus on Ownership

By Steven Mufson
Washington Post Service

BEIJING — Tang Zongkun is one of China's happy homeowners. Two years ago, he dipped into his life savings and plunked down the equivalent of \$4,225 to buy his Beijing apartment.

All around him, neighbors have been doing the same thing and suddenly the building is looking a bit spiffier. One neighbor has installed a parquet floor. Another has put in a new bathroom. Several have fixed up their kitchens, including one family that has completely remodeled the stove, cabinets and wall tiles.

"There could be a great market here," Mr. Tang said.

That is what China's leadership hopes. One of the cornerstones of this year's economic reform program is a plan to encourage Chinese families to buy homes and apartments.

The Chinese government has proclaimed that free housing, once considered a right under the Communist system, is in fact an unaffordable welfare benefit. On July 1, the allocation of virtually free housing by work units will cease and 200 million to 300 million urban Chinese families will either have to buy their homes or face years of rapid rent increases.

Although it reverses the long-standing policy of controlling people's lives through housing supplied by state-owned work units, private home ownership is now being promoted as a panacea that will take housing costs off the books of ailing state enterprises, increase labor mobility, spur the growth of a service industry of plumbers, carpenters, decorators, brokers and financiers and introduce a relatively more stable form of lending business to the frail banking system.

"The most important issue in

China today is housing reform," says Yukon Huang, chief representative of the World Bank in China. "It triggers reform in almost every sector of the economy."

A surprising number of Chinese have already purchased their homes. In Beijing, 420,000 state-owned apartments, or 20 percent of the total, were sold to individuals by the end of last year, according to the state-run press agency, Xinhua. In Guangzhou, more than 85 percent of newly built houses are bought by individuals. In Shanghai, more than half of the new housing is being bought by families.

In the 1950s and 1960s, the American dream was to own a private house and private car," said Meng Xiaosu, president of the China National Real Estate Development Group. "Now the Chinese have the Chinese dream."

Mr. Meng, a Communist Party member and a former member of the bourgeoisie-bashing Red Guards during the Cultural Revolution of 1966-76, hails private home ownership as the "fourth wave" of private consumption in China.

In the early 1980s, he said, just after economic reforms began, the first wave of consumption started with clocks, bicycles and sewing machines. In the late 1980s, the second wave hit as people bought black and white televisions, semi-automatic washing machines and tiny refrigerators. In the early 1990s, according to Mr. Meng, came the third wave with sales of automated washing machines, air conditioners and color televisions.

How can people afford to buy houses in a country where they earn only a few hundred dollars a year? China has one of the world's highest household savings rates and employers have been ordered to give their workers deep discounts de-



Hilary Smith/The Washington Post

Zhang Fan showing off the big-screen television in the apartment he owns in a suburb of Beijing.

pending on the number of years they have worked and the length of time they have lived in their homes.

Mr. Tang, for example, a retired researcher at the Chinese Academy of Social Science, and his schoolteacher wife had 76 years of work experience between them and were able to buy their apartment at an approximately 70 percent discount.

He feels it was owed to him. "We worked our whole lives for this house," he says. "We paid for all our lives because our salaries were so low."

"The discount is a form of compensation to employees," said Mr. Meng, whose company is a state-owned one that sells on behalf of state-owned work units. "What we're doing is giving people the money we should have been giving them all along. It's no loss to me. All those years we gave those people very low salaries."

But the government is not selling houses and apartments out of the goodness of its heart. In an economy where the demand for consumer goods cannot keep pace with supply,

where there is a commercial real estate glut and where exports and foreign investment are squeezed by the Asian economic crisis, China wants to breathe life into the housing market to give the economy a boost.

A senior government economist said that the government also views private housing mortgages, virtually nonexistent now, as a way to improve credit quality at China's banks, where more than 20 percent of the loan portfolios are nonperforming.

"In the past, the banking system has provided a lot of capital to factories for production purposes," the economist said. Now much of that money cannot be repaid. "Banks should issue more loans to consumers," he said. "The risk is much lower than with enterprises."

Mortgages have been issued on an experimental basis in several cities, including Suzhou, where over the last two years only one family out of several thousand defaulted on a loan. In the case of that lone default, a man had died in an accident and his survivors could not meet the payments on their own, officials said.

"A lot of people worried that it would be very difficult to control so many small loans," the government official said. "Now more people in the banking system are convinced."

Zhu Xiaodong is one of them. Mr. Zhu, the chairman of China Everbright, which has a banking subsidiary, says the company will start doing more mortgage lending. With inflation at zero, interest rates at 11 percent for a 15-year fixed-rate mortgage and real estate prices depressed, Mr. Zhu says the business is appealing.

In the rush to buy, some developers are even selling apartments before they are built.

Beijing Vantone Industrial Co. is building a \$10 million development, a model of which sits in the lobby of its headquarters. The company plans to pave over some fish ponds close to the Summer Palace and build four tennis courts, a fountain and several apartment buildings. Customers are already lining up.

Clinton Aide Meets With Jiang

BEIJING — Samuel Berger, the U.S. national security adviser, met with President Jiang Zemin of China on Tuesday for talks about a meeting with President Bill Clinton this month, the Xinhua news agency said.

Mr. Clinton is expected to be in China from June 25 to July 3 in the first visit by an American president since the Chinese Army slaughtered unarmed pro-democracy demonstrators around Tiananmen Square in Beijing in June 1989.

Mr. Berger, who arrived in Beijing on Monday, also met with Foreign Minister Tang Jiaxuan and Deputy Prime Minister Qian Qichen on Tuesday, according to the Xinhua report.

(Reuters)

3 Buses Bombed in Tokyo

TOKYO — A pre-dawn explosion Tuesday at a bus depot destroyed three buses, including two used for shuttling passengers to Tokyo's main international airport. No injuries were reported.

Anasui Henni of the Chiba prefectural police said the explosion had occurred just outside Tokyo in the bus depot at the Matsudo office of Keisei Electric Railway's motor vehicle department.

The police say they suspect anti-airport radicals may have been involved in the explosion. (AP)

A Mugging Spree in Bangkok

BANGKOK — Robbery gangs wielding motorcycle clubs have killed at least one person and injured scores in a mugging spree across Bangkok.

The police said Tuesday that they had broken up two gangs that use helmets, a ubiquitous accessory in a gridlocked city where motorcycles are widely used. (AP)

Taiwan Expects U.S. Weapons

TAIPEI — The United States will allow the sale of advanced night navigation and targeting equipment to Taiwan to enhance the capabilities of U.S.-built F-16 fighters, the local press reported Tuesday.

Taiwan's official Central News Agency said the U.S. Defense Department was prepared to approve the sale of 28 Pathfinder-Sharpshooter infrared devices, along with training and support, for \$160 million.

Taiwan's Defense Ministry would not confirm the sale, but a spokesman said the military "looked forward" to such purchases.

China has pressed the United States not to sell Taiwan more weapons. (AP)

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MAX: GO: 1.02 FOD: 1.35

BELGIQUE en FB1 - TVA 21%
GO: 2.03 FOD: 9.24
SCSI: 32.40 FOD: 30.41

HOLLANDE (zone D) NLG1 - TVA 17.5%
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ASIA/PACIFIC

Kashmir at the Heart of Crisis

Pakistan Hoping to Harness Global Pressure and Aim It at India

By John Kifner
New York Times Service

ISLAMABAD, Pakistan — Pakistan is hoping to turn the crisis over the Asian nuclear arms race into Western, and particularly American, pressure to wrest the disputed territory of Kashmir from Indian control, government officials and foreign diplomats say.

But Kashmir is an issue as symbolic, passionate and intractable to Indians and Pakistanis as Jerusalem is to Israelis and Palestinians.

It is Kashmir — and not the dueling nuclear tests — that has become the leitmotiv of Pakistani statements in recent days as the government has mounted a campaign, sending envoys abroad and appearing on U.S. television, to turn the international furor to its advantage in the struggle for the contested mountains and valleys that have been a flash point between the two countries for the 50 years of their existence.

"America can play a leading role," Foreign Minister Ghulam Ayub Khan said, framing the position on a Sunday talk show on CNN, by bringing "Pakistan and India to the table to solve the Kashmir dispute, from which everything is now stemming."

On Tuesday, for a third day, neither country issued any bellicose statements, a verbal cease-fire that suggested that both were trying to ease their way back from the brink.

But their different versions of calm pointed up how intractable the issues are and how difficult any solution will be.

The Indian overtures make no mention of Kashmir. Indian troops control some two-thirds of the largely Muslim province and say they are there to suppress Islamic insurrectionaries covertly backed by Pakistan. In 1994, by a unanimous vote, the Indian Parliament vowed that the nation's goal was to extend its rule to all of what is called "Pakistan-occupied Kashmir."

Rather, an Indian communiqué on Sunday repeated an offer of a "no-first-strike paci" between the emerging nuclear powers.

But for the Pakistanis, the ability to launch a nuclear weapon is viewed as a vital deterrent because their military — half the size of India's, with increasingly worn and obsolete equipment — would be unlikely to last more than a week in a conventional war, some experts say.

With independence and the end of the British Raj in 1947, the 664 princely states that had made up the British colony were to choose which new country they wanted to join. Hindu-dominated India or Muslim Pakistan. Nearly all the population of Kashmir was

Muslim, but its maharaja was Hindu. When fierce tribesmen challenged his rule, he appealed to India, which sent in forces that still occupy a large part of the province.

Since 1988, men fighting under Islamic banners have stepped up the war in Kashmir, leaving 300,000 dead. It is an open secret here that Afghan mujahidin, veterans of the struggle that drove out the Russians, have been operating in Kashmir under the auspices of Pakistan's shadowy Inter-Service Intelligence.

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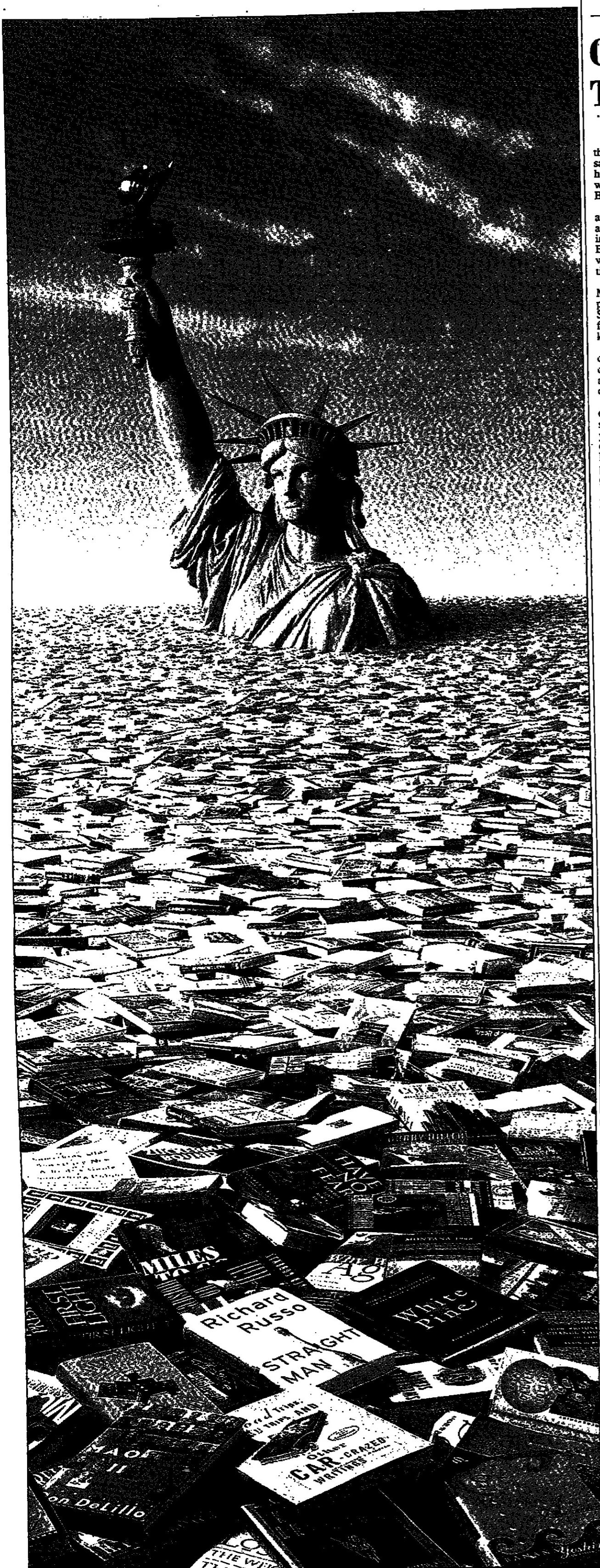
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INTERNATIONAL

Convicted Killer Expected To Testify Against Botha

The Associated Press

GEORGE, South Africa — One of the apartheid state's most feared assassins appeared likely Tuesday to be heading for a courtroom showdown with its last hardline president, P.W. Botha.

Mr. Botha is on trial for refusing to appear before the Truth and Reconciliation Commission, which is investigating apartheid-era human rights abuses. But the trial has become a probe into whether Mr. Botha's government sanctioned the murders of black activists.

To establish why it wants to question Mr. Botha, the Truth Commission has produced documents suggesting that the State Security Council, which the former president headed, authorized the killings of black liberation fighters.

Now, the prosecution wants Eugene de Kock, a former police colonel and death squad boss, to give evidence against Mr. Botha. Mr. Botha's lawyers oppose the move.

Mr. de Kock, whose ruthlessness earned him the nickname Prime Evil, is serving two life sentences plus 212 years on six charges of murder and 83 other convictions. By appearing at Mr. Botha's trial, he would have a chance to pin some of the killings he committed on the former government.

In his autobiography, published this year, Mr. de Kock called himself a "sacrificial lamb" for the apartheid-era

state's human rights abuses and complained that "the guiltiest of all — the generals and the politicians — have got off scot-free."

Evidence that Mr. Botha sanctioned attacks against black activists mounted Tuesday, when a retired police commissioner, General Johan van der Merwe, testified at a Truth Commission hearing in Pretoria.

Mr. van der Merwe linked Mr. Botha to the 1988 bombing of the Johannesburg offices of the South African Council of Churches, which opposed apartheid.

Repeating testimony made earlier, Mr. van der Merwe said that a former Law and Order minister, Adriaan Vlok, told him that Mr. Botha wanted Krooso House, the building that housed the church offices, destroyed. Mr. de Kock has admitted planting the bombs.

Mr. van der Merwe also testified that Mr. Botha's government ordered security police to commit illegal acts to fight the African National Congress, which was waging a guerrilla campaign to end apartheid.

Mr. van der Merwe's testimony came during a hearing into the 1988 death of the activist Stanza Bopape, who died under police torture.

Mr. Botha has insisted that he has nothing to apologize for and has described the Truth Commission's work as a witch-hunt against whites.

Ethiopia-Eritrea Border Clashes Claim More Than 100 Casualties

Agence France-Presse

ADDIS ABABA, Ethiopia — More than 100 people have been killed or wounded in border fighting between Ethiopian and Eritrean forces in northern Ethiopia, a humanitarian source said here Tuesday.

An official Ethiopian source said there had been 24 hours of "serious clashes" Sunday before the Ethiopian Army took control.

The Ethiopian source said the fighting had taken place in the regions of Aiga and Indageda, about 190 kilometers (110 miles) from Mekele, the capital of Tigre Province.

"There are several hundred missing," an Arab diplomatic source said.

An Ethiopian source in the region of the fighting said the Ethiopian Army had taken about 20 Eritrean troops prisoner.

Sporadic fighting between the two sides continued Tuesday around Al-

itena, in the northern region, Western diplomatic sources said.

The U.S. Embassy in Addis Ababa, meanwhile, withdrew Peace Corps volunteers in the area of the fighting, and "suggested" that Americans refrain from traveling there.

On Monday, Ethiopian officials reported fresh incursions by Eritrean troops into Ethiopian territory in the northwest of the country, saying Ethiopian troops were being deployed along the border.

Eritrea and Ethiopia have both deployed troops in the area after what Addis Ababa said was an invasion by Eritrea's armed forces May 12 in the northwest in which 16 people were killed.

Eritrea claims that its troops have crossed no borders. Addis Ababa has insisted on the withdrawal of Eritrean forces before any talks, mediated by U.S. and Rwandan officials, take place.

BOOKS

A FATAL FRIENDSHIP Alexander Hamilton and Aaron Burr

By Arnold A. Rogow. 351 pages. \$27.50. Hill and Wang.

Reviewed by Richard Bernstein

IN the history of the United States from the Revolutionary War to the early republic, few figures have been treated as harshly as Aaron Burr. In 1807, Burr, the New York lawyer and former vice president, was put on trial (and found not guilty) of plotting to sell the western half of the American continent to Britain.

But, of course, the major black mark against Burr was that he killed Alexander Hamilton, a Founding Father and major American hero, in a sordid duel in 1804, when Hamilton was not yet 50.

In "A Fatal Friendship," by Arnold A. Rogow, a political scientist who has taught at Stanford University and the City University of New York, Burr comes in for better treatment than most writers have given him. Hamilton, on the other hand, is depicted as a man of pathological and self-destructive hatred who virtually forced Burr, after years of slander and innuendo, to

challenge him to a duel.

Rogow's book, which is carefully researched and soberly argued, is not exactly an exoneration of Burr or an indictment of Hamilton, but it does certainly come to a revisionist conclusion: that Burr has been condemned too harshly while Hamilton has been let off too easily.

Rogow's account of the Burr-Hamilton relationship is in this sense refreshingly iconoclastic. Why then does his version of the amazing relationship between these two historical figures never take on narrative power?

One reason is that Rogow's close attention to a good deal of rather dry detail often slows his story to a snail's pace. At the same time, his overelaborate, knotted, almost clinical prose style does not help.

Rogow pays far more attention to Hamilton than to Burr. In part, this seems a result of the simple fact that far more material is available on Hamilton than on Burr.

But Rogow's purpose is also to demonstrate the considerable flaws in Hamilton's character that, he believes, impelled him toward his fatal meeting with Burr on a field in New Jersey.

And so a major portion of

Rogow's book recapitulates Hamilton's remarkable career while contrasting it psychologically with Burr's important but quieter and less astonishing one.

Hamilton, whose brilliance got him important early posts, left for America in 1772 on the eve of the early revolutionary movement. He was rejected at Princeton (Burr's alma mater) but studied law at King's College (the forerunner of Columbia University) and, as everybody knows, spent the next three decades making a brilliant, seminal contribution to American history as a theoretician of federalism, a drafter of the Constitution and the founding secretary of the treasury.

But Hamilton was also a married man with several children who was chronically unfaithful to his wife. He had one affair, with a woman who was later a law client of Burr, that, as part of a claim that he was the victim of an extortion scheme, he publicly admitted.

Hamilton had a powerful tyrannical streak. For example, he favored the terrible Alien and Sedition Acts of 1792, which Burr opposed. While treasury secretary, he enabled friends and relatives to engage in what we would now call insider trading.

Rogow, in other words, agrees with John Adams, who called Hamilton "a proud-spirited, conceited, aspiring mortal, always pretending to morality, with ... debauched morals ... As great a hypocrite as any in the U.S."

In his last chapter, after chronicling the murky events that led up to the duel, Rogow makes his moral balance sheet clear. Hamilton's destruction, he argues, was the product of a strange, unreasoning "long-standing obsession with Burr."

Most interestingly and most speculatively, Rogow be-

BRIEFLY

Riot Police Patrol Zimbabwe Capital

HARARE, Zimbabwe — Hundreds of riot policemen were deployed Tuesday in the capital of Zimbabwe, and the main university was closed after student protests against President Robert Mugabe.

The police, armed with shotguns, clubs and shields, patrolled the city center, where about 200 students broke shop windows Monday.

About 10,000 students were sent home after the University of Zimbabwe was closed.

The home affairs minister, Dumiso Dabengwa, asserted that student protesters had received funding from unnamed opposition forces with a hidden agenda.

"We already know who is sponsoring, and who is supplying them," he said on state radio.

On Monday, student leaders sent a petition to Mr. Mugabe calling for establishment of a commission to investigate graft allegations against his administration and for an increase in grants.

(Reuters)

Court Bars 3d Term For Argentine Chief

Buenos Aires — Argentina's top electoral court has ruled that President Carlos Saúl Menem is banned by the constitution from seeking a third straight term in 1999.

"The nation's president is not allowed to seek a third mandate," the National Electoral Court said Monday. Supporters of Mr. Menem had sought an interpretation of the law.

(Reuters)

10 Killed in Mexico Fighting Forest Fire

MEXICO CITY — Ten Mexican troops who had been battling forest fires died Monday in a helicopter crash in Tamaulipas state, the Defense Ministry said.

The worst drought in decades and El Niño, the weather pattern, have fanned fires set to clear land in virgin rain forest.

The deaths Monday brought to more than 60 the number of people killed fighting fires that have scorched 380,000 hectares this year in Mexico.

(Reuters)

Albania Waits Tirana Considers Shift

TEHRAN — Worries over the future of the Islamic Republic's government had shifted to the question of whether Ayatollah Khomeini's successor, Ayatollah Ali Khamenei, will be able to maintain the revolution's principles and policies.

Yazd, the capital of the central province of Yazd, had been the scene of a protest by women who are trying to defend their traditional dress and religious beliefs.

In another development, Mr. Khamenei's son, taken ill, was

in an intensive care unit.

The revolution, which started in 1979, has been a major factor in the decline of the economy.

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(Reuters)

RUSSIA: Yeltsin

Continued from Page 1

A statement from the Kremlin said the week ended with the signing of a new joint economic agreement between Russia and the Kremlin.

Mr. Yeltsin, who has been facing a magnetic pull from the West, has signed a new tax law that increases the country's web of regulations, debts, and energy imports.

Al Breach, Russian Economic Policy, says symbolism of the meeting with the West.

If one of them plug and went to the West, it would shake up the entire system of the economy.

If they all changed, they can't afford to do it.

Those present at the meeting with the West, including Mr. Yeltsin, have been critical of the West's policies.

Rem Vyakhirev, gas monopoly Gazprom's chief executive, said the company's web of regulations, debts, and energy imports.

Most of them have been engaged in industrial and financial holdings.

In another development, the Russian government vowed to move forward with the privatization of state-owned companies.

Driver in Gucci Says Killer Is at Large

MILAN — A driver of a car driven by a man who was found dead in a hotel room in Milan, Italy, has been arrested.

The driver, Gianni Gualtieri, was found dead in a hotel room in Milan, Italy, on June 1, 1998.

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BEST SELLERS

This week	Last week	Wk. on 1st

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EUROPE

Albania Warns Milosevic**Tirana Considers Shift in Policy on Kosovo Crisis**

Reuters

TIRANA — The Albanian government warned Tuesday that it might review its policy on the Kosovo crisis because the Yugoslav government of President Slobodan Milosevic had shown no sign that it would refrain from the use of force.

Albania has won international praise for its restraint in the face of mounting clashes between Kosovo's ethnic Albanian majority and Serbian security forces.

Prime Minister Fatos Nano's government backs autonomy for Kosovo within Yugoslavia rather than independence, and has had no official contact with the separatist guerrillas of the Kosovo Liberation Army who are fighting Serbian troops for Kosovo's independence, preferring to deal with the elected ethnic Albanian leader in Kosovo, Ibrahim Rugova.

In an apparent hint that this could change, Mr. Nano said: "In Kosovo, people have taken up arms in self-defense and their or-

ganization in structures is a reality that should not be ignored." He said he would intensify his efforts to get the international community to put more pressure on Belgrade to halt what he called "ethnic cleansing" in Kosovo.

■ 2,000 flee violence in Kosovo

International aid organizations warned Tuesday of thousands fleeing the surge of violence in Kosovo, which has claimed dozens of lives in the last several days. The Associated Press reported from Pristina, Yugoslavia.

All communications with western Kosovo, where Serb forces recently intensified their campaign to wipe out ethnic Albanian militants, remained cut off Tuesday, so no update on possible new casualties was available.

Serbian police said four policemen were wounded Monday by ethnic Albanian militants. About 2,000 people from Kosovo crossed into northern Albania on Sunday and Monday.

KOSOVO: Belgrade Moves to Wipe Out Rebels

Continued from Page 1

along the border and in other places."

Mr. Milosevic's decision to unleash his troops on the ethnic Albanian rebels undermines an American diplomatic effort to bring the two sides together. Richard Holbrooke, the U.S. envoy, had secured Mr. Milosevic's agreement to begin direct talks with the Albanian leadership, and had as a result decided that sanctions on Belgrade should be suspended.

The about-face on the sanctions has angered many European allies, since Washington originally pushed Europeans to adopt them.

Mr. Milosevic has been unable to seal off the mountainous and desolate border with Albania. Over the last few weeks he has watched weapons, supplies and mercenaries — many of them veterans of the Bosnian conflict — flood into Kosovo to build up the Kosovo Liberation Army, senior Western diplomats said.

The rebel force is fighting for a separate state in a province where ethnic Albanians outnumber Serbs nine to one. It already controls as much as 40 percent of the province and has been engaged in daily hit-and-run clashes with the police and the military in the last three months. More than 200 people have been killed since March, including three Yugoslav soldiers gunned down at the Morina border post near northern Albania on Friday.

The Serbian police have prevented reporters and outside observers from reaching the fighting. Those fleeing the area, however, report constant automatic fire and the crash of artillery rounds. Many villages are burning, especially those near the Albanian border, witnesses said in telephone interviews Monday. The ferocity of the combat appears to be greater than the bloody sweep in March by Serbian special police units that left 80 ethnic

Albanians, half of them women and children, dead. It was this attempt to wipe out the rebels that triggered the current open revolt in the province and swelled the ranks of the guerrilla movement.

"There is a very clear pattern of activity emerging," said a Western official who follows the conflict. He described the Serbs' thinking this way: "The Serbs are putting the army on the border and clearing the zone. You have to have an eight to 10 kilometer wide stretch where no neutral people live; anyone there is an enemy. You have to get them out of those villages, otherwise they can help the Albanians smuggle. At the same time, the Kosovo Liberation Army is trying to build, fortify and equip its base areas for training and using its force."

Until now, most of the fighting has been, in the words of senior NATO official, "a distraction, a skirmishing line."

The fighting now, however, is different with elite special police and military units moving to wipe out rebel enclaves along the border with Albania and in the central Drenica region, according to witnesses in Pristina reached by telephone.

General Clark said NATO, worried about the impact on neighboring states, was carrying out "detailed studies of possible preventive deployment" and "was preparing exercises for consideration."

But NATO officials conceded that it could take up to 20,000 soldiers to police the border with Albania and doubted that it would be possible to find the support necessary to deploy such a large contingent.

The Serbian government, which agreed last month to hold talks with the ethnic Albanians in order to stave off sanctions, said it would meet for a second time with the Kosovo Albanian leaders on Friday.



ANGRY MINERS — At a protest Tuesday in Kiev in front of the presidency, a participant banged his helmet on the ground to back demands for overdue wages.

BRIEFLY**Slovaks Give Assurance On New Nuclear Station**

BRATISLAVA — Slovakia's nuclear power agency said Tuesday that it had assured the European Commission that the controversial Mochovce nuclear power station was safe but would not go into service until a final review.

The Soviet-designed Mochovce is bitterly opposed by neighboring Austria, which says the plant would be unsafe. Austria asked the European Union last week to take up its protest with Slovakia.

"Mochovce is, from a technical and safety point of view, ready to begin operating," the Slovak Nuclear Supervision Bureau said. It stressed that "strict requirements and the recommendations of the International Atomic Energy Agency" had been met.

Located 120 kilometers (75 miles) from the Austrian border, the Mochovce power station is scheduled to begin operating in June or July.

(Reuters)

Swiss Roman Catholics to serve in the force, protecting the Pope and, in modern times, performing ceremonial duties.

(AP)

Russia Acts on U.S. Pact

MOSCOW — The Russian Parliament announced Tuesday that it had decided to move up plans for closed-door hearings on the START II arms treaty with the United States, scheduling the issue for next week.

But the speaker of the Duma, Gennadi Seleznyov, warned that the hearings would be shelved if President Bill Clinton continued to put pressure on Russia to ratify the treaty.

After recent nuclear tests by India and Pakistan, some lawmakers have been urging Moscow to show its commitment to disarmament by ratifying the nuclear-arms agreement.

(AP)

Serb Chief Silent on Foe

BELGRADE — The president of the Yugoslav Federation, Slobodan Milosevic, remained conspicuously silent Tuesday over a major election triumph by his foes in Montenegro, who pledged to defy him and push for more democracy.

Mr. Milosevic's reaction to the election victory of a coalition led by the reform-minded Montenegro president, Milo Djukanovic, could determine whether the remnants of Yugoslavia, now consisting of Serbia and Montenegro, break up or move toward democratic changes.

Mr. Milosevic's ally, Momir Bulatovic, who lost the elections, was summoned to Belgrade for consultations. There was no word from the meeting.

(AP)

Pope Picks Guard Chief

VATICAN CITY — Pope John Paul II selected a colonel in the Swiss Army on Tuesday to head the elite corps of Vatican guards, which was shaken last month by a murder-suicide that took the life of the commandant, Alois Estermann.

The pontiff chose Colonel Pius Segmuller, 46, to head the Swiss Guards. He named Lieutenant Elmar Maeder, an attorney and army veteran, as second-in-command.

For five centuries, popes have drawn on

Chamber Stops Work On Italy Constitution

The Associated Press

ROME — Constitutional reform in Italy was on its deathbed Tuesday, but political leaders said they were putting the funeral off until next week.

The Chamber of Deputies had been scheduled to vote on a disputed article revising the powers of the president, but the vote was called off.

"On Wednesday, June 10, the chamber will meet and it will acknowledge that the conditions to continue the reforms no longer exist," said Gustavo Selva, deputy whip for the rightist National Alliance.

Massimo D'Alema, the Democratic Left leader, said there could be a last-ditch effort to salvage reforms. But he said a "miracle" would be required for the process to continue.

Spain Denies Laundering Nazi Gold

The Associated Press

MADRID — Spain on Tuesday denied new allegations from the U.S. State Department that it sold war supplies to Nazi Germany in exchange for gold stolen from Jewish victims.

Spain did not launder Nazi gold stolen or looted from the Jews," Foreign Minister Abel Matutes said.

He added that Spain stood by its own investigation, which found that the country had acted correctly in its business dealings with Germany during World War II.

Mr. Matutes reacted to allegations by State Department historians and experts that Spain under General Francisco Franco played a "crucial role" in laundering Nazi gold.

The report asserted that Spain was a leading exporter to Germany of tungsten, which is used to make can-

non and armored plating, and that it was frequently paid in looted gold.

Mr. Matutes said that Spain's exports of tungsten had never been a secret and added that the fact that the country sometimes paid with gold did not constitute a charge.

Spain and four other neutral countries in World War II — Portugal, Switzerland, Sweden and Turkey — were accused in the State Department study that was made public Tuesday of handing back less than 20 percent of the looted Nazi gold believed to have been kept in their banks.

In April, a Spanish government commission presented a report in which it absolved Franco's regime of responsibility for the purchase of gold from Germany, saying that it did so out of economic necessity in the aftermath of the Spanish Civil War in the 1930s and that the transactions

had been "judicially impeccable."

In Lisbon, Prime Minister Antonio Guterres said that Portugal had nothing to hide about its wartime dealings with Germany.

"The Americans can say what they want. We are just interested in the truth," Mr. Guterres said in reaction to the U.S. government report.

■ Turkey to Investigate

Turkey said Tuesday that it would investigate allegations that it received Nazi gold in payment for war supplies. The Associated Press reported from Ankara.

"Turkey has nothing to hide," said the Foreign Ministry spokesman, Necati Utukan.

He added that a commission headed by a state minister would investigate.

RUSSIA: Yeltsin Calls for Help

Continued from Page 1

A statement expected this week envisions some kind of new, joint effort by business and the Kremlin, participants said.

Mr. Yeltsin's magnates presented Mr. Yeltsin with ideas to streamline taxes, untangle the country's web of wage arrears and debts, and reduce tariffs on gas, energy and railway transport.

Al Breach, an analyst at the Russian European Center on Economic Policy, said the symbolism of the Yeltsin meeting with the oligarchs was to display solidarity in the face of market panic.

"If one of them pulled the plug and went for the door," it would shake confidence in the entire system, he said of the tycoons.

"If they all stand firm," he added, "they can hold it."

Those present included Rem Vyakhirev of the natural gas monopoly Gazprom; Vagit Alekperov of the oil giant Lukoil; Mr. Gusinsky, Mr. Chubais and several others. Most of them have banking as well as industrial and media holdings.

In another development, the Russian government vowed to move ahead with the privatization of Rosneft.

Driver in Gucci Murder Says Killer Is at Large

The Associated Press

MILAN — A defendant in the murder trial of the fashion heir Maurizio Gucci confessed in court Tuesday to driving the getaway car, then surprised the courtroom by saying that the killer was still at large.

The driver, Orazio Cicala, testified that he was drawn into the murder plot by Mr. Gucci's former wife, her high-society psychic and a hotel doorman. He then declared that the suspected gunman — Benedetto Cerulo — was not guilty.

Mr. Gucci, the 46-year-old grandson of the man who founded the Gucci fashion empire, was shot on March 27, 1995, as he walked into his office building in central Milan. Prosecutors allege that his former wife, Patrizia Reggiani, had Gucci murdered because he had cut her alimony payments in half, to \$900,000 a year.

Mr. Cicala described the killer as a "dolt" he had met while dealing drugs, but said he was afraid to reveal the man's identity, the ANSA news agency reported.

"I can't give you his name because I have children and a family," he told the court.

For the first time, all five defendants appeared Tuesday at the trial: Mrs. Reggiani; her long-time confidante and spiritual adviser, Giuseppina Aurummo; Ivano Savioni, a Milan hotel doorman; Mr. Cicala, and Mr. Cerulo.

Mrs. Reggiani's lawyers said in opening arguments that she had hated Mr. Gucci and had often said she would like to see him dead. But they said a 1992 operation for a brain tumor had rendered her incapable of conceiving and carrying out the murder plot.

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EDITORIALS/OPIION

Herald Tribune
INTERNATIONAL
PUBLISHED WITH THE NEW YORK TIMES AND THE WASHINGTON POST**Russia in Trouble****Link Aid to Reform**

President Bill Clinton's vague Sunday endorsement of further financial assistance for Russia did nothing to calm the financial crisis there. On Monday the Russian stock market lost 10 percent of its value. It has now lost more than half its value this year. The ruble is in danger, and so are President Boris Yeltsin's economic achievements and the future of his pro-reform government.

Some of the causes of the crisis are beyond Moscow's control, which would tend to strengthen its arguments for outside aid. The Asian financial crisis has spooked investors about all emerging markets. The steep fall in prices for oil, gas and gold has hit Russia hard, reducing both its export revenues and its tax collection. Helping countries overcome such external shocks is a legitimate function of the IMF.

But Russia is vulnerable to such shocks because of its own failures — particularly its failure, after seven years, to fully implement economic reform. This is not just a matter of tax inspectors being too lax or of this or that bureaucrat falling down on the job.

— *THE WASHINGTON POST*

Tasks for Fyodorov

You know you are on new economic terrain when the White House decides to rush out a pronouncement on Russia on a Sunday, not because of some impending Russian government action but in hopes of influencing financial markets to be more inclined to lend money to the Moscow government.

President Bill Clinton's efforts to jolt Russian markets were, at least initially, no more successful than previous presidents' efforts to talk up U.S. financial markets in times of crisis. Panicked investors are not inclined to be reassured by vague promises of support, such as the White House offered when it said the United States would back "additional conditional financial support from the international financial institutions, as necessary, to promote stability and structural reform in Russia."

The most important word in Mr. Clinton's statement was "conditional," and it points us toward the real game that is being played here. The president is supporting the current international policy of delaying a large bailout until there is evidence of real reform. In plain language, the United States and the IMF want Russia's government to prove that it might collect revenues even before the badly needed

— *THE NEW YORK TIMES*

Clinton Backs Down

President Bill Clinton's decision to back down from an appellate fight with Independent Counsel Kenneth Starr over executive privilege was prudent. The facts of the Monica Lewinsky matter were unlikely to produce a decision that would serve the presidency even in legitimate attempts to keep White House communications confidential. Moreover, Judge Norma Holloway Johnson's recent decision, although it requires White House aides Sidney Blumenthal and Bruce Lindsey to testify before Mr. Starr's grand jury, was far better for the president than it might have been. Mr. Clinton surely serves his office better to let the two aides testify now than to wait for a Supreme Court decision that could weaken presidential prerogatives.

It is, however, a shame that the president did not show similar wisdom about his claim that a governmental attorney-client privilege protects parts of his conversations with Mr. Lindsey. This privilege is even more fragile than executive privilege; Mr. Starr, along with a federal appeals court, argues that it does not even exist. Judge Johnson disagreed, holding that a qualified privilege does exist but that it is overridden in this case by Mr. Starr's need for the Lindsey testimony.

The White House cannot believe that it is maximizing its chances of reinforcing this privilege by litigating this matter — in which the testimony sought relates to allegations of obstruction of justice and subversion of perjury by the president.

His partial retreat may actually delay matters more than a full-fledged appeal would have. By appealing only the attorney-client aspects — those

— *THE WASHINGTON POST*

Other Comment
A Cheaper Yen Can Help

The weaker yen will not be a cure-all, but it is likely to do more good than harm. A cheap yen will bring three benefits to Japan. First, it will boost exports and so help to offset feeble domestic demand. Second, by helping to push up import prices, a weaker yen will make deflation less likely. Japan is currently in danger of entering a deflationary spiral in which falling prices swell the real debt burden of companies, which adds to the problems of the banking sector, which further depresses demand and so prices fall lower still. And, lastly, a cheaper yen will lure new capital into Japanese equities and property, helping to ease one of the financial sector's biggest problems.

— *The Economist (London)*

A Priority for Russian Reform: Stem the Stealing

By Venyamin Sokolov

MOSCOW — Russia's large budget deficit has been blamed for its current economic crisis, pushing the country's financial markets to the brink of collapse and sending foreign investors fleeing. But the main culprit is the alliance that the Russian government has formed with powerful business interests. This alliance has been raiding the public treasury and depriving the Russian people of a secure and democratic future.

Item: The Finance Ministry lent \$150 million to the Moscow Aviation Production Combine so that it could build MiG-29 fighter planes for sale to India. An audit by the Chamber of Accounts found that not one cent of the loan reached the enterprise. At the time of the "loan," the MiGs were already finished and ready for sale outside the plant.

Item: The Russian Parliament appropriated \$150 million for the reconstruction of the Chechen economy after the war there ended. The total bill came to \$3 billion. An intensive review by the Chamber of Accounts found doc-

umentation for only \$2 billion, and less than \$150 million reached Chechnya. What happened to the remaining billion? No one knows.

Tax revenues are collected only to be stolen. Losses on the federal and regional levels are huge. The Finance Ministry compounds the problem by having no accounting system to keep track of revenues and spending. The Russian people are paying the price.

When the World Bank lent Russia \$90 million, the first third of it was set aside to compensate victims of bank bailouts and pyramid schemes. Later audits showed that not one victim received the money.

Meanwhile, the massive privatization drive undertaken by President Boris Yeltsin has produced few benefits. For example, when Norilsk Nickel, the vast mining complex in Siberia, was privatized, it was sold at fire-sale prices, and the government received little revenue. And few privatized

companies have become more efficient or profitable.

The country as a whole is starved for capital. Thus, when the Russian oil giant, Rosneft, was put up for sale last week, no bidders came forward. The rights of the ordinary shareholder are not respected. Only the veneer of capitalism has been achieved.

All this has created the debt that is strangling the economy. Forty-five percent of state revenues are now used to service that debt. Little is left over to provide services, a situation worsened by the 30 percent budget cut that Mr. Yeltsin made in April and an additional 12 percent cut in May.

This means no money is left to pay workers or to support education, public health or scientific research. No wonder unrest is mounting. Scientists unpaid for months have blocked railroads, and miners have gone on strike.

The year the Russian stock market has suffered the world's steepest decline, and its precipitous recent fall may herald much worse to come. The situation is not yet irreversible.

To the government's credit, democracy is beginning to work in Russia. Independent auditors are allowed to investigate. Courts are weighing complaints about illegal privatization brought by the Chamber of Accounts.

That is a start. But there is more to be done. Violators must be prosecuted, and those who enforce the law must have government support in punishing the guilty. Shareholders, too, need the tools to clean house.

Beyond this, the international community, especially the IMF, which promotes the transformation of the Russian economy, must help bring the country back from the abyss by demanding greater accountability on its loans. Otherwise Western economic prescriptions will continue to fail.

Effective reform must stem the stealing of the Russian state.

The writer is a director of the Chamber of Accounts of the Russian Federation. This comment was translated from the *Russian for The New York Times* by Louise I. Shelley.

Time for Chinese-U.S. Teamwork Against Proliferation

By Ralph A. Cossa

KUALA LUMPUR — Pakistan's nuclear test explosions, after those of India, provide a compelling new rationale for the United States and China to work closely together to prevent the spread of weapons of mass destruction. But will they?

During their summit meeting in Washington in October, Presidents Bill Clinton and Jiang Zemin issued a joint statement saying they were mutually determined to build "a constructive strategic partnership." This commitment was reaffirmed during Secretary of State Madeleine Albright's recent visit to Beijing to prepare for this month's Beijing summit.

Neither side has yet defined how the strategic partnership would work. Both seem to agree that at a minimum it should involve high-level dialogue on strategic issues and joint efforts to develop cooperative approaches when mutual security interests are challenged.

The Indian and Pakistani nuclear tests should be just such an issue. Yet evidence of constructive cooperation or a coordinated Chinese-U.S. approach is nowhere to be found.

After the Indian tests, the United States and China could have offered a joint security guarantee to Pakistan in return for a pledge not to respond in kind to India's provocative actions. Pakistan, in justifying its own tests, has claimed that the lack of outside security assurances left it with no choice but to provide for its own defense.

After this initial failure to respond, Washington and Beijing still share a mutual interest in seeing the Indian and Pakistani programs terminated and in halting further proliferation.

The United States did take a firm stand against India, and openly to pressure and encourage Pakistan not to start testing. China was much more subdued, issuing hollow words of condemnation against India while

stating that "China will not encourage Pakistan to conduct its own nuclear tests."

A diplomatic mission to Beijing by Pakistan's foreign minister, reportedly aimed at obtaining security assurances, came away empty-handed, save for an alleged pledge by China not to impose economic sanctions should Pakistan conduct a nuclear test.

China took a little heat internationally from those who accept at face value India's claim that it was fear of China and Chinese nuclear and missile technology assistance to Pakistan, that drove New Delhi's decision to test. In reality, most analysts agree that domestic political factors ruled the day.

China did, however, play a supporting role. It is impossible to discuss international relations in India for more than a few minutes without getting a lecture on how China, as a nuclear power, receives special treatment and respect that should rightfully be accorded to India as well, or instead.

It has been relatively easy for China to brush off criticism about somehow being to blame for India's actions, especially given Beijing's pledge not to resume its own testing program.

It will not be able to escape international criticism for Pakistan's actions, since Beijing is widely seen as the silent partner behind Islamabad's nuclear program.

The Pakistani nuclear tests could even provide the final straw in convincing Mr. Clinton — already under fire for alleged

Chinese campaign contributions and for technology transfers and for scandals — to cancel his visit to China.

All this would seem to argue in favor of a much stronger Chinese response to India and Pakistan's nuclear testing, if for no other reason than to convince others not to follow suit.

What kind of message does a lukewarm response testing by India or Pakistan send to countries like Iran, Libya or North Korea?

And then there is Taiwan. If New Delhi can make the case that the China threat justifies a nuclear weapons program, and if China merely shrugs its shoulders as Islamabad makes the same case vis-a-vis India, what does one say to the people of Taiwan?

After all, China has been shooting nothing but olive branches toward India in the past several years, while firing missiles toward Taiwan. The Taiwanese have a nuclear power industry that generates a substantial part of the island's electricity. They may well have the know-how to develop nuclear weapons — although the government has said it will not.

A failure by Presidents Clinton and Jiang to do more than bring their hands over the emerging nuclear arms race in South Asia would help to perpetuate a destabilizing situation. It would also increase the odds that others will travel down the nuclear weapons path.

The writer is executive director of Pacific Forum CSIS in Honolulu, a nonprofit foreign policy research institute. He contributed this comment to the International Herald Tribune.

Fear Religious Nationalism, Nuclear or Not

By William Pfaff

PARIS — Heroic restraint is not to be expected of nations, any more than of individuals. Such restraint is edifying when it occurs, but it defies human nature and political expedience to believe that Pakistan would refrain from demonstrating that it, too, is a nuclear weapons power.

One has only to imagine how American public opinion would have reacted to a situation like Pakistan's — or recall how it did react when the Soviet Union launched the first orbital satellite in 1957, and put the first man into space.

American nuclear nonproliferation policy has been perfectly reasonable as an effort to limit the risk that nuclear weapons will again be used in war. It also serves U.S. national interests, as a nuclear "have" power. That is its main flaw in the eyes of others.

The United States is against

proliferation for others, but has no intention of renouncing its own nuclear weapons. This is not a reasonable policy from the viewpoint of a nation unwilling to rely on the benevolence of the existing nuclear powers, or which is hostile to the United States, or regards the United States as hostile to it.

Such nations see themselves vulnerable to regional rivals already armed with nuclear weapons despite U.S. disapproval, as in India's case, or who have acquired them with tacit American approval, like Israel. That is why Iran and Iraq are not to be nuclear powers.

U.S. sanctions policy now is useless. Iran and Iraq have suffered from sanctions for years. They have nothing to lose and something to gain from joining the nuclear club, with India and Pakistan, or so they see it.

The blame for what has happened in India and Pakistan belongs mainly to India. The governing elites of India and Pakistan, admirable as are many of their members, have since 1947 proved incapable of rising above a sterile quarrel over Kashmir.

The Hindu nationalist-led Indian government of Prime Minister Atal Bihari Vajpayee, which came to power in March, is responsible for escalating the Indo-Pakistani struggle to the nuclear level — the symbolic nuclear level, as yet.

Mr. Vajpayee's party won only a quarter of the popular vote in the national election that brought his coalition government to power, and testing nuclear weapons undoubtedly seemed a way to consolidate his popularity.

What it actually did was create the wave of popular opinion in Pakistan that required Pakistan to demonstrate that it, too, possesses nuclear weapons. After the Indian tests, ministers in Mr. Vajpayee's government had made implied threats concerning Kashmir.

Now, possibly, all will hault again, with a kind of equilibrium re-established. However, this is a peculiarly dangerous situation because while public opinion in both countries is fired by nationalism, that nationalism is in turn fired by religious passions.

Pakistan was created as a Muslim state but has been a reasonably tolerant one, with a sophisticated and often very secularized elite. India was founded as a secular state, without an established religion.

India's success in maintaining genuinely representative

and democratic institutions, despite the multiplicity of its religions and sects and the variety of its peoples, has merited the admiration of the world. Now comes an intolerant Hindu nationalism, whose leaders include people determined to subdue or expel Muslims and make India into a Hindu state.

Nationalism driven by religion is extremely dangerous because while secular nationalist movements have goals and limits in this world, religious nationalism has intemperate aims, and promises its militants intemperate rewards. Die in the struggle against infidels or heresy and you are instantly in paradise. The Middle East has seen too much of the consequences of that kind of belief.

Probably, stability and effective mutual deterrence can be re-established. Deterrence is even more convincing after you have seen the effects of your own bomb. Neither of these struggling countries has the slightest rational gain to achieve from a new war in which nuclear weapons are available. Nor does China, the silent actor in what has recently happened.

The introduction of Hindu nationalism into India's national politics is no more important than the bomb tests.

The storm of protest and criticism that broke out when India's Parliament reassembled demonstrated that a large part of India's political class is appalled at what Mr. Vajpayee has done. It has to be seen now whether Pakistan's tests strengthen that reaction, which could eventually lead in the direction of a settlement between the two countries, or whether nationalism is in the saddle.

It has not been clear whether some of India's distinguished generaals know a good deal about Israeli security. Meissi Krauthammer, mentors in Israel.

The two years since the return of the peace process have increased instead of decreasing moderation. Instead of becoming more moderate, Israel is returning to its old ways of isolation and withdrawal, and is in danger of making all in the region less secure.

Mr. Netanyahu's position is the security position in his coalition.

The only thing that can be done is to stay with the security position in his coalition.

Playing With the Peace Process

By Thomas L. Friedman

WASHINGTON — There was something so ridiculous over the top about Newt Gingrich's trip to Israel last week that the trip becomes an object lesson. It is rare that you see such an Olympic-quality pander for Jewish votes and campaign donations, with no regard for U.S. interests or regional stability.

So what does Mr. Gingrich do? First he denounces Mrs. Albright as an "agent" for the Palestinians. Nice. Then, while in Israel, he signals that if Mr. Netanyahu decides to go with his hard-liners and reject the U.S. plan, Newt will make sure that Bibi Soffer no longer status in Washington.

The U.S. plan protects Israel's security needs but does not satisfy every fantasy of every extremist in Mr. Netanyahu's cabinet. So he has to choose: Go with the United States and the Palestinians, and advance the process but lose part of his coalition or hold his whole coalition and lose the process.

This is a hard choice for him. He does not want to be blamed for reigniting the conflict. It would be Bosnia on the Jordan. But he is obviously reluctant to confront far-right opponents of the plan. (Why he won't take on Ariel Sharon, I don't know. I'd bet on Mr. Netanyahu in that debate.)

So he keeps delaying and trying to squeeze even more out of the Americans and Palestinians, hoping for a deal so overwhelmingly in Israel's favor that Mr. Sharon's complaints would be neutralized. But this would make the deal

impossible for Palestinians to swallow.

If the Clinton team has the courage to keep the pressure on Mr. Netanyahu, he will eventually accept the U.S. plan. It is too much in Israel's and his own long-term interest. But he will avoid choosing as long as he can.

So what does Mr. Gingrich do? First he denounces Mrs. Albright as an "agent" for the Palestinians. Nice. Then, while in Israel, he signals that if Mr. Netanyahu decides to go with his hard-liners and reject the U.S. plan, Newt will make sure that Bibi Soffer no longer status in Washington.

The message is typical of pro-Israel, muscle beach party before, where everyone thinks that the only reality is U.S.-Israel politics and that everyone else is a paper tiger. It was 15 years ago, when on May 17, 1983, the Reagan team and Israel's Likud government crumpled down the throat of the Lebanese an unbalanced, totally pro-Israel plan for the withdrawal of most, but not all, Israeli troops from Lebanon.

But the May 17 agreement was never implemented. The U.S. Marine compound in Beirut was blown up five months after it was signed. And both the marines and Israel had to pull out of central Lebanon unilaterally, at great cost and leaving an enormous mess.

Mr. Gingrich's pathetic

warning to the United States in the matter of increased armaments being an outcome of the war. "This will sooner or later drive the United States towards a policy of offensive conquest," says the Bismarckian organ.

OPINION/LETTERS

Goldwater: An American Original, Unprogrammed and Uninhibited

By David S. Broder

PHOENIX, Arizona — A scheduling coincidence brought me back to Phoenix on the day of Barry Goldwater's death and stirred memories of the summer, 34 years ago, when the Arizona senator came home from San Francisco with the Republican presidential nomination in hand.

The first day back, Mr. Goldwater was intercepted at the barbershop by The Associated Press's Walter Mears for an exclusive interview.

The next morning, several reporters stung by Mr. Mears's scoop drove up to Mr. Goldwater's mountain home, hoping to recoup. The security guard at the bottom of the driveway agreed to call the house and the senator, gracious as usual, let us come up.

You must understand that on that weekend, Mr. Goldwater was at the center of a huge political storm. The Republican National Convention had ended in an uproar, triggered by his defiant "extremism in the defense of liberty" speech. Large parts of his party were threatening to rebel and elders from Eisenhower on down were trying to calm the stormy waters. Every utterance from Mr. Goldwater was critically important at that moment.

So what did he do? First, he told us he had begun the day on the phone with another early riser, his neighbor "Lucky" Davis, mother of the future first lady Nancy Davis Reagan. As was their custom, they had exchanged the latest jokes to reach their ears — which he eagerly repeated and none of which were remotely suitable for family newspapers.

Then he showed us the elaborate "ham" radio equipment in the corner of his living room and, on impulse, said, "Look at this." He reached into a drawer below the transmitter, extracted a large brown envelope and removed from it a blown-up photograph of a near-naked woman posed provocatively near her own ham set. The inscription, he pointed out, read: "Barry, you ought to 'work' my call letters."

The contents of the subsequent interview were much less notable than these preliminaries. The morning remains a vivid reminder that Mr. Goldwater, more than any other major-league politician I have ever known, was

He created the conservative politics that have dominated America for the last 30 years.

servative politics that have dominated America in the final third of this century. How did he do it?

His ghostwritten book, "Conscience of a Conservative," inspired a generation of young people to join the Republican Party; they fill its leadership today. But he was, as he was quick to proclaim, no intellectual. His ideas were no more than gut reactions to his experiences.

The U.S. Army Air Force made him a lifelong advocate of a strong military. Even more important, growing up in a family of entrepreneurs on a frontier just emerging into statehood and prosperity made him believe that self-reliance was the supreme virtue.

The essence of his philosophy was expressed at a 1964 campaign rally in Wichita Falls, Texas. He told the crowd filling a football stadium how their ancestors had come to the arid Southwest and scratched out a living from the hard soil.

When they had dug a little deeper they discovered oil — and riches beyond imagination. He concluded with a classic Goldwaterism: "So, as a famous man once said, 'Let my people go.'

From those four words he derived a hostility to big government, taxes and regulation that is the hallmark of contemporary conservatism. The message took hold rapidly despite his landslide defeat. Ronald Reagan, who gained his first national politi-

cal exposure in the 1964 Goldwater campaign, won the California governorship just two years later.

The Goldwater-Reagan view merged with and fueled a national reaction against the Democrats, who for decades had dominated Washington and vastly expanded the scope of the federal government.

If Mr. Goldwater gave im-

petus to the conservative counterrevolution, he also demonstrated the weaknesses that have continued to plague it. Though principled, his opposition to the great civil rights laws of the 1960s was historically wrong; Republicans are still struggling to overcome the distrust of minorities who exercise growing political power.

And his habit of making off-the-cuff comments that alarmed people who rely on Social Security retirement benefits, Medicare and other government programs continues to plague congressional Republican leaders who are Unstintingly.

The Washington Post.

When the State Seeks to Punish States of Mind

By George F. Will

WASHINGTON — Meet federal Judge Whittaker J. Stang, who is old, dyspeptic and too good to be true:

"I like my clerks smart, young and pretty. And if anybody doesn't like it, they can sue me for sexual harassment, age discrimination, and — I don't know — brains discrimination, how's that? Can they sue me for intelligence discrimination?" If you painted a peace symbol on a synagogue, you got a mild sentence for vandalism; if you

MEANWHILE

painted a swastika, you got 10 years for a hate crime.

So instead of directly banning hateful speech and acts, legislatures enhanced the penalties for acts that seemed motivated by hate or that seemed to have occurred because of the victim's status or the perpetrator's hatefulness.

This, a Dooling character says, is a bonanza for lawyers: "Hate could mean more business for them than crack cocaine. After all, hate is everywhere, and it's free!"

But proving intent to do something is hard enough without having to prove it was done with a bad attitude. Imagine the potential for abuse when the law invites prosecutors to prove to juries that a particular motive — proscribed hatred of a group accorded special government protection — caused the killer to pull the trigger.

"Brain Storm" is a crash course in neuroscience, and the possible be-

havioral implications of neurological disorders.

One of Mr. Dooling's characters is a scientist who says that believing in free will is akin to believing in leprechauns. The mind, she says, is "a symphony orchestra with no conductor" — hundreds of billions of neurons cooperating to produce consciousness, and we have no idea how.

But new brain-scanning technologies can produce, in effect, pictures of, say, rage or contentment — the glucose uptake, oxygen consumption, blood flow and electrical or magnetic activities correlated with particular states of mind. So is it unreasonable to postulate genetic, biological, environmental or medical causes of violence — causes that can be removed?

The trouble is, the law holds us responsible for controlling our minds — which, presumably, control our bodies. Unfortunately, government increasingly wants to inventory and furnish our minds.

Today government, although hard-pressed to provide basic services, has ever more ambitious plans for fine-tuning citizens' minds. Joe Camel has been killed and Budweiser's frogs and lizards will soon find themselves in the government's gun sights as part of its metastasizing campaign against socially undesirable desires (and not only those of "kids").

Political hygienists bent on "campaign finance reform" are hot to gut the First Amendment to pro-

ect the (supposedly) gullible public from overdoing on "too much" political speech. To protect that fragile flower, womanhood (the law enshrines that stereotype), from "hostile work environments" (whatever annoys a particular woman on a particular day), a federal judge has held that use of gender-based terms such as "foreman" or

America's government has ever more ambitious plans for fine-tuning its citizens' thoughts.

"draftsman" could constitute sexual harassment.

Government has found that classified ads for homes with an "ocean view" and with "family rooms" discriminate against the blind and singles, respectively.

So pay attention when Mr. Dooling says, "The day is fast approaching when all speech will be regulated in the interest of civil rights and the prosecution of hate criminals who commit gender crimes through the hostile and abusive use of illegal words."

And read "Brain Storm" for a subtle, entertaining depiction of the tangle that results when government undertakes to punish not only crimes but states of mind.

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Help the Kosovars

Since March 1 have received daily e-mail dispatches from Kosovo describing the steady process of ethnic cleansing of Albanian

Letters intended for publication should be addressed "Letters to the Editor" and contain the writer's signature, name and full address. Letters should be brief and not subject to editing. We cannot be responsible for the return of unsolicited manuscripts.

INTERNATIONAL

Indonesians Enjoy Taste of Freedom, but Wonder How Long It Will Last

By Seth Mydans

New York Times Service

JAKARTA — Suddenly, after decades of repression, Indonesia feels like a country without rules — and that, for many people here, is as frightening as it is exhilarating.

Political prisoners are being freed. The once tightly controlled press has slipped its leash. Students are holding sit-ins in provincial government buildings. People are speaking their minds.

These things were almost unheard of under President Suharto, who stepped down nearly two weeks ago after running Indonesia for 32 years. Already since his departure, a new Indonesia is in the making, but its shape is unknown.

"Everything is in flux," said Goenawan Mohammad, the editor of the magazine Tempo, which was shut down by the government in 1994 but now plans to reopen. "Things can change tomorrow in a moment."

He added, "This could be a short breath of freedom after the emperor is deposed."

For now, new political parties are being formed nearly every day. The military has returned to its barracks and is publicly investigating its own wrongdoings. And the attorney general has announced that he will investigate some of the immense wealth the former president amassed through businesses and charity foundations.

But there is little rejoicing here. It was not simply personal ambition that led Mr. Suharto to clamp down so hard for so long; it was fear, shared by many in this country of 210 million people, of chaos.

The struggle to fill the place left by Mr. Suharto is only beginning, and unpredictable forces — the military, popular and religious movements, new political parties and opposition leaders — are testing their strength. Throughout the last week, rumors of coups and of conflicts within the military have swept the capital.

In the background, the economy is collapsing at an accelerating rate. Indonesia has entered a period of epochal change at a time when its people are becoming poorer, hungrier and more angry.

Dissatisfaction from the economic crisis was the prime engine behind Mr. Suharto's ouster, leading to riots and weeks of student protests. Pulling the country out of that economic tailspin has been left to his successor, B. J. Habibie. But social unrest in the coming months could again send the country into turmoil. One response to unrest could be reimposition of strongman rule.

"The forces of repression are still lurking," Mr. Mohamad said. "When you live with people with guns, you have to have institutions to defend you, and we don't have that yet."

Successful generations of potential leaders were quashed by Mr. Suharto's autocracy. Now the many sectors he suppressed have begun to emerge and marshal their forces.

Labor activists, leftist ideologues, Muslim su-

premacists, democratic reformers, human rights campaigners, regional separatist movements, those still loyal to Sukarno, the president ousted in 1967, and ambitious men and women who were forced in the past to pledge allegiance to Mr. Suharto have all been unleashed to pursue their own agendas.

"Now you have 1,000 alternatives," said Wimar Wirselar, a political analyst. "Everyone is confused. Everyone knows that the status quo is not going to last very long. So everyone is grabbing for what they can get. It's a classic power vacuum and you have all kinds of whiffs swirling around. It's very, very dangerous."

Among the dangers is a resurgence of ethnic and religious conflict in this nation of 13,000 islands, hundreds of ethnic groups and a history of conflict between the overwhelming majority of Muslims and minority groups of Christians and ethnic Chinese.

Many ethnic Chinese merchants remain afraid

to reopen their shops after three days of rioting last month that damaged thousands of buildings and cost at least 500 lives in Jakarta alone. Smaller outbreaks of rioting and looting have erupted elsewhere in the country since.

As dark fears and conspiracy theories stalk the capital, some even whisper that Mr. Suharto, who remains in Jakarta with his powerful family, may be acting as a "puppeteer" behind the scenes. "Be on alert because that factor could lead to a rift during the transition period," warned Marie Muhammad, who was Mr. Suharto's last finance minister, last week.

If the country's new openness and its struggle for political power degenerate into turmoil, and if people slip further into poverty, many Indonesians might welcome a seizure of power by the military, the one institution that is seen by most people as organized and efficient. The military formed the base of Mr. Suharto's rule and remains the most potent power behind the scenes.

HABIBIE: His Timetable Leaves Him in Presidency Until 2000

Continued from Page 1

He said he believed that Mr. Suharto, who is 76, had grown too old to sense the mood of the people. As a younger man of 62, Mr. Habibie said, he had a better feel for the aspirations of the younger generation.

"It's a natural process, aging, you know," Mr. Habibie said. "I don't want to insult because he has done a lot for the country. But he's not a young man."

"The students are my children and the students are his grandsons. The gap between father and son is less than the gap between grandfather and grandson. It is a generation gap, O.K.?"

And in contrast with his patron, he presented himself as a champion of democracy and human rights as well as of the kind of economic openness that he said he hoped would quickly restore public confidence in the Indonesian economy and attract foreign investment.

"Now you have another person; you have another president," he said. "You have another economic team. You have transparency. You could never talk to

President Suharto the way you can talk to me." He added: "I am not the king."

He defended Mr. Suharto's accumulation of billions of dollars in wealth, saying the former president was frugal and never indulged in the life of the jet set. And Mr. Habibie said that Mr. Suharto's wealthy children shared the blame for their self-enrichment with a feudal culture that treated them like royalty.

"If you dig into the past, then the past is unlimited, and I have limited resources," he said.

"I'd better concentrate on the future. Many of the things that are said are right and many things are also exaggerated. And so it is not worthwhile for the future of my country to dig into the past."

As for his own enrichment and that of his family, Mr. Habibie insisted that they were all highly educated and talented people and that their wealth had been earned fairly.

In a melancholy tale of the handover of power, he described his sudden abandonment by Mr. Suharto, who he said had refused to meet with him before

stepping down and had not communicated with him since.

When told of a newspaper report that Mr. Suharto was passing the time playing golf and jogging, Mr. Habibie said, "Golf? That's good."

The last time they met, he said, between 8 o'clock and 9 o'clock on the evening before Mr. Suharto resigned on May 21, the former president was still discussing his plans to announce a new cabinet the next morning.

"But then at 11 o'clock I was informed by the secretary of the president that he had changed his mind. He was going to step down the next morning and leave it to the vice president to take over the leadership of the country," Mr. Habibie said.

"The next morning I applied to see him at home but they said, 'No, he is on his way. He will not receive you.'"

Mr. Habibie said he hurriedly asked various officials whether this handover of power was constitutional, and was assured that it was.

"Then they told me the president had arrived, and I immediately sent the protocol officer to see whether I could see



Protesters shouting anti-American slogans Tuesday at the U.S. Embassy in Jakarta. They accused Washington of interfering in Indonesian affairs.

him, and he said no," he said. Mr. Habibie had taken the oath of office: "He looked at me, he shook hands, between them after Mr. Suharto had read not a single word, just a smile. That's his brief resignation statement and Mr. all."

STRIKE: 3d Day of Turbulence

Continued from Page 1

and conditions, leaving passengers on foreign airlines to cope with their own luggage.

The Communist-led CGT trade union, meanwhile, called a strike for Thursday on the Paris subway and the RER commuter service. Railroad workers have called a strike for Friday, and truckers are threatening to block roads in the days leading up to the World Cup.

"France, the company and the World Cup must not be held hostage," Mr. Gayssot told the National Assembly eight days before the June 10 start of the tournament in cities across France. "We must negotiate and we must break this logjam."

Air France says the pilots' strike is costing it about 100 million francs (\$16.8 million) a day. The strike is particularly embarrassing for the airline because it is the official carrier for the World Cup. It has promised to provide flights for all the teams in the 32-nation tournament.

Mr. Gayssot and Jean-Cyril Spinetta, the Air France chairman, said they would be flexible in the negotiations with the striking pilots, the first to be held since the pilots walked off the job Monday in a protest over planned salary cuts and a lower pay scale for new hires.

But the pilots remained wary, issuing a statement shortly before the talks opened urging Parliament to start an inquiry into Air France's finances.

"For a few days now, Air France has been blowing hot and cold," said Jean-Charles Corbet of the SNPL pilots' union. "We are going to attend the meeting, but let's not get carried away. We shall see." The SNPL represents two-thirds of the airline's 3,200 pilots.

The talks ended after about five and a half hours and were to resume Wednesday at 3 P.M., officials said. There was no immediate word on whether any progress had been made.

French officials and soccer fans have accused the pilots and other Air France unions of blackmail by striking just before the World Cup begins.

Public opinion has been heavily against the pilots, who are among the best paid in the world despite the national airline's having run up years of losses. The airline has received 20 billion francs in taxpayer-financed bailouts in recent years.

On Tuesday, the Socialist Party urged the pilots to accept government proposals as a basis for negotiations and said it hoped talks could reach a favorable conclusion soon.

"By refusing all reasonable change, the pilots would indeed expose themselves to the incomprehension of French men and women," the party said.

About 98 percent of the company's pilots have joined the strike. As a result, most of the handful of Air France planes flying Tuesday were operated by charter companies.

Air France has set up special toll-free numbers in France during the strike. These are 0 800 240260 for international flights, 0 800 051155 for domestic flights from Paris and 0 800 051555 for domestic flights to Paris. Information is also available through the Minitel system at 3615 or 3616 code AF, hours.

British Airways, meanwhile, said it was increasing passenger capacity on some of its London-to-Paris flights to meet additional demand arising from the strike. "We're doing everything we can, and over the next three days, we'll be offering 1,500 extra seats," a spokesman said.

Some of the 190-seat Boeing 757 aircraft used on Heathrow-to-Orly flights were replaced Tuesday with larger Boeing 767s, she said.

On Wednesday, the airline said there would be an extra 700 seats available on BA flights to Paris, with an additional 240 seats Thursday. (Reuters, AP, AFP)

Viagra Gets Thumbs Up From EU Medical Panel

Reuters

BRUSSELS — The European Union's medicines agency said Monday that its scientific advisory committee had recommended that Pfizer Inc.'s impotence treatment Viagra be marketed in Europe.

The London-based European Agency for Evaluation of Medicinal Products said the European Commission would make the final decision after consulting the 15 EU countries — a process that normally takes three months.

Pfizer announced last week that the panel, the Committee for Proprietary Medicinal Products, had adopted a "positive opinion" on Viagra. Viagra won approval from U.S. regulators two months ago and quickly became one of the biggest-selling drugs in history.

Six deaths have been reported in the United States, but Pfizer said they were attributed either to cardiovascular events associated with sexual activity in older men or to a combination of Viagra and nitrates.

The EU medicines agency said in a statement that it was responding to applications to market Viagra from Pfizer Limited UK and Roerig Farmaceutici SpA, both Pfizer subsidiaries. It said it had considered the latest safety data available from patients in the United States.

GERMANY: 2 Big Parties Warming to Idea of a Grand Coalition After Elections

Continued from Page 1

ning for election on his party's platform can publicly admit to any fondness for the idea.

During the '60s coalition period, it had been argued that West Germany emerged from recession and took the first small steps toward Ostpolitik, the opening to the then Soviet Union and its Eastern European orbit. At the same time, though, some historians have made the case that the Red Army Faction terrorists that challenged Germany's stability in the '70s found root in the Grand Coalition's neutered political environment.

Now, the possibility of a Grand Coalition has emerged because of the particularities of the German electoral system, which virtually guarantees that no single party can achieve a majority and rule on its own. Every poll indicates, and the political community believes, that the Social Democrats (SPD), the hard-left party anchored in Eastern Germany, just enough votes to enter the Bundestag.

Within their own camp, the Christian Democrats are expected to peak at about 39 percent. Politicians and pollsters concur to give the Greens, the Free Democrats, and the Party of Democratic Socialism (PDS), the hard-left party anchored in Eastern Germany, just enough votes to enter the Bundestag.

Publicly, the SPD has advanced the position that it would seek to govern with the Greens. But the ecological party now appears likely to enter the Parliament by only a thin margin, and Joschka Fischer, the Greens' most coherent mainstream lead-

er, has privately told colleagues that he believes Mr. Schroeder wants and will get a Grand Coalition.

A Social Democrat member of Parliament said that if the Greens ran as expected, staying close to 5 percent of the vote, and that the PDS was comfortably returned to Parliament, a Grand Coalition "becomes likely enough for me to say my instincts tell me it will happen." Ahead of everything else, this would relieve Mr. Schroeder of having to live with a situation where it appeared, regardless of his demurs, that he was tacitly counting on the former Stalinists of the PDS for support a tight squeeze.

A ranking Christian Democrat, analyzing Mr. Schroeder's thinking, said he would likely consider that he would have an easier time reducing taxes and reorganizing work-place rules counting on CDU support rather than having to rely on the chancery support of the Greens and the trade union wing of his own party.

"And frankly," he said, "there is no better way for him to deal with Lafontaine." The reference was to Oskar Lafontaine, the SPD chairman, whose old-left political orientation and strength within the party represents a contradictory presence for Mr. Schroeder's stated plans to reform the German economy and job market.

Within the CDU, Chancellor Helmut Kohl has sharply rejected any possible cooperation with Social Democrats, and various other segments of the party are opposed to any coalition arrangement with the SPD. The opposition breaks down into groups that feel they could alienate their rank-and-file local

support through a deal with the SPD, find themselves two ideologically opposed to cooperate, or believe that an SPD-Green coalition is so pre-programmed for disaster that it guarantees the CDU's return to power in four years, if not sooner.

Against this are those in the CDU who want a continuing presence in government, with its jobs and prerogatives, and who believe, sometimes passionately, that a Grand Coalition in September would assure the country's stability and progress. After 16 years in power, the coalition would also provide the CDU with a practical and relatively painless mode for its after-Kohl reorganization.

Since no one in either party can campaign openly for it, the coalition idea swims on its own, without vocal support, in the flood of German public opinion surveys. In a poll published last week by the newspaper *Die Welt*, 51 percent said an SPD-CDU government would be the coalition best able to solve the country's problems, an increase of 10 percent since February. One in four Germans preferred a coalition between the Social Democrats and Greens. Another poll, taken among financial professionals by the newspaper *Handelsblatt*, showed the number of people believing that there would be an SPD-Green coalition falling from 49 percent to 40.5 percent in a week.

Asked if he didn't see a risk in the disengagement and political somnolence that its critics say a Grand Coalition could bring, the SPD legislator replied, "Whatever the outcome, I never heard of anyone outside of here being afraid of a boring Germany."



ON PATROL — Military policemen marching in Tiananmen Square on Tuesday, two days before the anniversary of the 1989 massacre in Beijing.

Greg Baker/The Associated Press

CHINA: Freed From Jail, Ex-Senior Official Assails Leadership

Continued from Page 1

Communist Party was the point man for political reform under Mr. Zhao.

"I am still proud that I was a party member," Mr. Bao said, "but the Chinese Communist Party has done a lot of stupid things."

His comments come amid signs that influential party members are debating political reform more openly than any time since the 1989 crackdown. Some voices outside the party are also calling for a re-evaluation of the party's verdict on the suppression of the 1989 demonstrations, which ended in hundreds of civilians.

Mr. Bao was riding on a train back to Beijing from the countryside in 1977 when he heard a radio broadcast that Mr. Deng had been rehabilitated.

"I had a great deal of hope in Deng," Mr. Bao said Tuesday night. "I thought in the beginning he could become a great man in Chinese history."

"Unfortunately," Mr. Bao said, referring to the 1989 crackdown, "during June 4, he blackened his own face. No one did this to him. He was too powerful. He did it to himself. That, I think, is a tragedy for him."

Mr. Bao blamed the Communist Party for thinking it could undertake economic reforms without significant political reforms. He said that the party should have embraced political change at the time of the Democracy Wall movement in 1979.

Instead Mr. Deng used the movement to crush his leftist rivals, then turned on the movement and jailed its most prominent advocate, Wei Jingsheng.

"This was the biggest lesson" of 1989, Mr. Bao said. "I was very active in pushing political reforms. But I should have pushed them earlier."

Referring to a group of leftist leaders, he said, "From as soon as we smashed the Gang of Four, just when the Democracy Wall was up, we should have started."

He said the failure to do this had created a country with a weak legal system that risks repeating mistakes of the Cultural Revolution, when millions of people were killed and exiled to

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STAGE/ENTERTAINMENT

The 'European Network' Strives for International Flavor

By Craig R. Whitney
New York Times Service

STASBOURG — Most Europeans still think of themselves as French, German, Italian, British or whatever first and Europeans second. Even the weather reports on the nightly television news in any country seldom report what is happening just across the border. So building a truly European public television station was a mighty challenge for Arte when it started up six years ago.

Arte, a Franco-German cultural broadcasting channel based in this European city, now transmits cultural and public affairs programming in French and German by satellite to 50 million homes from North Africa and Israel to Scandinavia. The programming is produced by the French, German, Belgian, Swiss, Spanish, Austrian and Polish partners.

Symbolically based in a Rhineland city claimed by both France and Ger-

many over the centuries and last fought over in World War II, the Arte consortium has a budget of \$280 million, most of it provided from the television tax that France and Germany levy on all set owners.

The original French and German stations that set up Arte produce most of what it uses, but it has its own Spartan production facilities scattered over this Alsatian capital. The people who run it say they want to do for European cultural television what CNN and Britain's Sky News have done for commercial news television, but in a distinctively European way.

"We said from the beginning that although we were a Franco-German enterprise, our future lay in Europe," said Hans Robert Eisenhauer, the station's deputy program director. "In the future, we'd like to be developing more extensive links with British producers at the BBC or Channel Four television, because without English you can't have a truly European network," he said.

You probably can't do it by broadcasting only in the evening, either, as Arte has had to do because of limits on available broadcast time in Germany. There, Kinderkanal, a public channel for children, suddenly metamorphoses into grown-up Arte at 7 P.M. In France, La Sept/Arte, it shares space until then with La Cinquième, a public channel with which it may eventually merge. In both countries, it continues until the small hours of the morning.

Satellite and German cable subscribers can zap onto either the French or the German soundtrack as they like, a possibility that French technology does not yet permit. But Arte is not for everybody. It had an average market share of 3.3 percent in France last year and only 0.6 percent in Germany, where more channels compete for viewer attention.

Officials of the station here take comfort from surveys showing that 27 million people of continental Europe watched regularly last year. Still, with more than 300 million European citizens,

there's obviously a long way to go.

"In both France and Germany today, there is far more national programming, particularly in movies, than there was 10 years ago," said Andreas Schreimüller, who commissions movies for Arte and is German like Eisenhauer.

WHEN European leaders defend European culture against the influx of Hollywood entertainment, Schreimüller said, the result is the production of more French, German, Italian, etc. television movies and entertainment programs, not more "European" ones.

Arte tries for a more international flavor; for the end of this year, it has commissioned a series of hour-long films by African, European, Brazilian, Canadian and Taiwanese directors called

"The Collection 2000 Seen by . . ." What the films have in common, Schreimüller said, is at least one scene dealing with the final minutes of the 20th century a year hence. For instance, Don McK-

ellar's Canadian entry, "Last Night,"

has the world end promptly with 1999.

"What we're always looking for is a

new perspective, a new way of looking at things," he said. "Internationalism is

a big part of that."

All the movies Arte broadcasts have

to be prepared with two soundtracks, in

French and German, or in English,

with French and German subtitles.

"We're also thinking of doing a 10-week family soap series that would take place in the cities that have been designated European cultural capitals," Schreimüller said. "One episode might play in Cracow, the next in Bologna, the next in Avignon, in Santiago de Compostela and so on," he said.

Arte aspires to be cultural television, and high culture at that, but isn't afraid to poke fun at itself, particularly with its logos and promotion spots. One of them features an actor posing as George Harrison in Liverpool or Herbert von Karajan in Bayreuth, always of course making a pitch for Arte programs, under the

slogan "Arte looks at Europe, and Europe watches Arte."

"We have a serious image, and we want that, but we don't want to scare off people by making them think we're elitist," said Henri L'Hostis, who leads a team of graphic artists that produces Arte spots.

Three times a week, three, four or five consecutive evening programs are devoted to aspects of a single subject.

"Falsifications: Appearance and Reality" last January, for instance, started with Helmut Dietl's 1991 film "Schön," a satire based on a Hitler-diaries hoax that fooled the weekly magazine Stern, among others, in 1983.

The evening of falsery continued through two documentaries on Konrad Kujau, the counterfeiter who pulled off the diary fraud. It ended with a game that tested viewers' own credibility, quizzing them and then giving the answers after a documentary that showed how easy it is to manipulate photographs and videotapes electronically.

A Triumphant 'Sly' in Zurich

By David Stevens
International Herald Tribune

ZURICH — Never mind the Three Tenors. In a recent two-week period the Zurich Opera had the Four Tenors on tap, something most impresarios can only dream of, but which here took place in the context of the busy schedule of a medium-sized repertory house.

Luciano Pavarotti, Plácido Domingo and Alfredo Kraus passed through town quickly, but José Carreras took on a major career challenge, triumphantly so, in the title role of a new production of a real rarity, Ermanno Wolf-Ferrari's "Sly."

Wolf-Ferrari is himself something of a rarity. Torn between his paternal Munich and maternal Venice, with periods of refuge in Zurich in the two World Wars, he returned to his native Venice a "tired pilgrim," in the words of the plaque on the house where he died in 1948.

The composer is most characteristic in his five settings of plays by Carlo Goldoni (a fellow Venetian of earlier vintage), in which his elegance and charm in writing for the voice and skill in handling the orchestra are winning.

"Sly" is a different matter altogether. First performed at La Scala in 1927, it is on one level a shot at verismo, but beyond that a real attempt at music drama. Giovacchino Forzano, Puccini's collaborator on "Gianni Schicchi," concocted the book from the brief, al-

most never performed "induction" to Shakespeare's "Taming of the Shrew," but much expanded.

In Shakespeare, Christopher Sly is a tavern toper who is the victim of a nobleman's practical joke — he is taken dead drunk to the noble's castle and when he wakes is made to believe he is really the aristocratic owner of the premises who has been asleep for years.

In the opera the joke is developed and given a tragic twist. The character of Sly encompasses two literary-theatrical legends — that of the long-distance sleeper awakened and that of the dissolute but gifted poet, not unlike Brecht's Baal. Dolly, the nobleman's girlfriend, pretends to be Sly's wife who has long awaited his reawakening, but actually falls in love with him. But when the joke is over, Sly is thrown into the castle's dungeon and kills himself, unable to believe in her sincerity.

Despite the composer's adroit use of musical pastiche, this is an uncharacteristic work in which he seems to be speaking a different language. It requires a huge cast of drunks, servants, hangers-on and various "dubious individuals." In short, it requires a real production.

There are four major roles, of which the tenor title part is at center stage most of the time, culminating in a daunting final act monologue. It is not a high-ranging part but it calls for real stamina, and Carreras carried it off heroically. Juan Pons was the formidably wicked

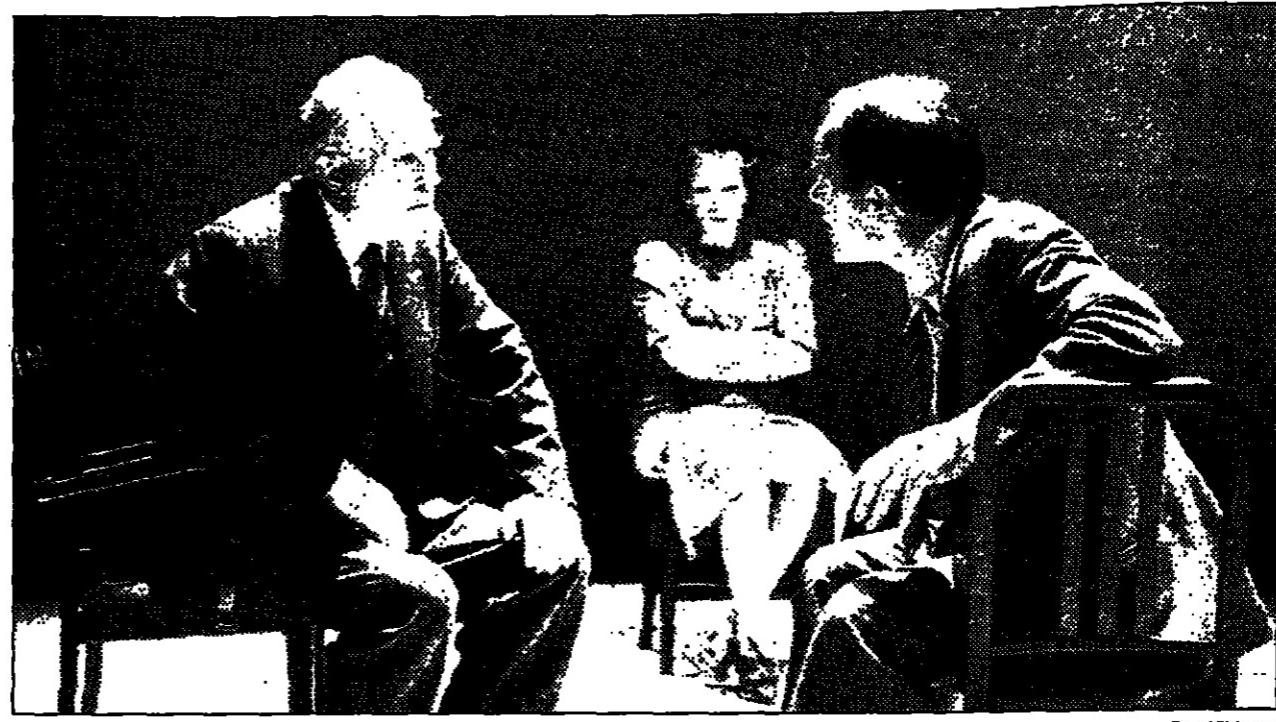
Earl of Westmoreland, author of the deadly prank; Daniela Dessì was the ambivalent Dolly, and Carlos Chausson was John Pike, an actor, fellow drinker and true believer in Sly's gifts as a poet. Rafael Fruehbeck de Burgos as the conductor made the most of a sometimes dense and difficult score.

The three acts include a tavern, a castle with an elaborate charade for the awakened Sly and a final dungeon scene. Hans Hollmann's staging, Hans Höfner's sets and Dirk von Bodisco's rich costumes all made solid contributions in behalf of this little-known but solid piece of music theater.

But the Zurich Opera, with about 300 performances a season, does not live by novelties alone. Alexander Pereira, the company's director, has to be and is skilled both at long-range artistic planning and at fielding emergencies.

At a matinee performance of Donizetti's "L'Elisir d'Amore," the scheduled tenor was replaced by Reinaldo Matías, a Cuban-born American, who won a well-earned triumph, along with Isabel Rey as Adina, Angelo Vecce as Belcore and Chausson the adroit Dulcamara.

Another house tenor, the Bulgarian Boiko Zvetanov, was impressive in a double-bill that paired "Pagliacci" and Puccini's "Le Villi," an early work based on the same material as the ballet "Giselle," with the tenor danced to death by the spirits of girls abandoned before marriage.



David Burke, Sara Kestelman and Matthew Marsh in Michael Frayn's "Copenhagen" at the National Theatre.

Frayn and the Birth of the Bomb

By Sheridan Morley
International Herald Tribune

LONDON — With unmasking topicality, the National Theatre premiere of Michael Frayn's "Copenhagen" opened within hours of the news that Pakistan had flexed its nuclear muscle: a publicist would have been hard-pressed to find a headline better suited to the theme of this difficult, demanding (of actors and audiences alike) study of the birth of atomic physics and the balance of world power that was irrevocably shifted by its application in 1945.

Frayn's partnership with the director Michael Blakemore, over six plays and almost 30 years, has given us the classic backstage farce "Noises Off" among much else, but never anything quite so demanding or in the end powerfully rewarding as this. We have only three characters on a bare, circular, white set; at yet a third, it is about two men whose passion for their subject overrides any human relationship either has ever known.

Elsewhere, it is somewhat ironic that the Barbican Arts Centre should at last have begun to acquire an identity and excitement all its own only as the Royal Shakespeare Company pulls out and leaves it for much of the year to other occupants. Moreover, "Love's Fire" by the Acting Company, one of the United States' most distinguished and innovative groups of players, offers something so quintessentially Shakespearean that the RSC, forever desperately trying to find contemporary relevance in the Bard, should have thought of it years ago.

Take seven of Shakespeare's sonnets,

give each one to a major dramatist and see what brief sketches they can weave around them. Inevitably some of these work better than others, notably Wendy Wasserstein's brilliantly acid Manhattan cocktail party to illustrate the verse about festering lilies smelling far worse than weeds; William Finn (of "Falsettos") contributes a moving mini-musical, and Tony Kushner has a Woody Allenish parody of psychoanalysis at its most neurotic. On the downside is a disappointing John Guare lurch back to the "Hair" '60s, but a powerful company under Mark Lamos's agile direction is hugely welcome over here.

And finally, the Orange Tree at Richmond revisits Kander and Ebb's 1984 musical "The Rink." John Gardyne has come up with a brilliantly new staging on a space so small that the roller-skating arena seems to have been built in downtown Lilliput.

Gary Soper and Gillian Kirkpatrick slug out the mother-versus-daughter plot, such as it is in Terrence McNally's uncharacteristically shaky book, but song after song soars out of this lament for the long-lost fairground world of colored lights and boardwalks. "The Rink" may never achieve the success of the same team's "Cabaret" or "Chicago," but its magical, heartbreakingly score remains one of the greatest of recent years, and the definition of Kander and Ebb at their considerable bittersweet best.

Prediction Rings True in Dresden

By George W. Loomis

DRESDEN — When the Dresden Music Festival began operations in 1978, Herbert von Karajan predicted it would be one of the handful of music festivals fortune would favor.

Perhaps it was just an exercise in East-West diplomacy, but his prognostication was on target. Under Michael Hämpe, director since 1994, the two-week festival observes its 20th anniversary with full houses and much to choose from. Connections with the Saxon State Opera insure international-caliber opera, while the festival's own events embrace everything from period-instruments to the latest contemporary scores.

Matthias Pintscher's "Thomas Chatterton," given its world premiere by the SSO, is the latest opera to address homoerotic love. Chatterton was an 18-year-old English writer who passed off his work as that of a fictitious monk and, once discovered, committed suicide. But the opera is as much about his relationship with his lovers (who happen to be brothers) as his artistic quandary.

The 27-year-old Pintscher, a student of Hans Werner Henze and Manfred Trojahn, has mastered the high-strung style of modern musical Expressionism with dazzling brilliance, but channeling it into effective musico-dramatic discourse posed a challenge not always met. Even the more ecstatic moments could not entirely shake the prevailing gloom.

Marco Arturo Marelli's striking production set the action in a skewed rectangular box. As Thomas, Urban Malmberg cut a shirtless, Wozzeck-like

figure. Matthias Klink projected clearly in the dual role of the brothers, and Annette Jahns impressed as Thomas's beleaguered mother. Marc Albrecht seemed to have the complex score securely under control.

Siegfried Matzus's "Farinelli," the festival's other new opera, offered more in the way of sheer enjoyment. The male alto Alex Kahler, who took the title role of the 18th-century castrato singer, also offered an engaging program of songs, enlivened by works of lesser Baroque figures like J.V. Goerner. His recital took place in the rebuilt crypt of the Frauenkirche, the colossal domed church that was demolished during the war. Reconstruction of the entire edifice is expected by 2006; in the meantime, its original stones patiently await reassembling on steel racks stretched across the Neumarkt.

The task may seem next to impossible, but one can only be optimistic given the magnificence of the rebuilt Semper Opera House, to which the SSO returned in 1985. Udo Samel's new production of "Aida" had all Dresden talking about a new cast member, a crocodile in the Nile Scene. Samel transformed the action into a modern, Middle Eastern conflict. Yet the essence of Verdi's opera (with Michele Crider and Ulla Sippola among the singers, Marcello Viotti conducting) seemed hardly disturbed, perhaps because Bernard Kleber's pastel-shaded Orpheus images and vibrant desert sunsets seemed so apt.

The SSO's excellent orchestra supplies personnel for the renowned Staatskapelle, but the city's other orchestra, the Philharmonic, is reclaiming much of its past glory, which included a year (1888) when Brahms, Dvorak, Strauss

and Tchaikovsky appeared as guest conductors.

Dresden observes that fine tradition of scheduling orchestral concerts at 11 A.M., and the Philharmonic's handsomely spacious performance of Schubert's "Great Symphony" under Jeffrey Tate was just right for the occasion. Early opera profited this year from the conductor Stephen Stubbs' diligence in ferreting out versions of the Orpheus myth. Having taken Luigi Rossi's "Orfeo" to Boston and Drottningholm last year, he turned to Antonio Sartorio's version from 1672.

THOSE expecting a Gluck-like economy of means were in for a surprise, for Sartorio's opera (performed in concert) had all the accoutrements of Venetian opera, including comic scenes, plus much of the mythical background. Orfeo loses Euridice for good following his ill-conceived glance, but a partially happy ending materializes when his brother (also smitten by Euridice) yields to the entreaties of another.

The many arias are striking for their lush string textures and sprightly rhythms, all realized by Stubbs and his Teatro Lirico with consummate style. Suzie le Blanc's enchanting Euridice headed the fine cast.

Hämpe will leave the festival in 2000 to devote more time to directing operas. By selecting Martin y Soler's "Una Cosa Rara" for his penultimate season next year, he promises another installment in his exemplary series of operas Mozart's contemporaries.

George W. Loomis is a music writer based in St. Petersburg.

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29 Win Grants From MacArthur

New York Times Service

NEW YORK — Leonard Zeskind of Kansas City, Missouri, has been working for 20 years to increase awareness of hate groups, and in 1983 he founded the Institute for Research and Education on Human Rights.

Now, with a \$295,000 windfall as a MacArthur Fellow, he hopes to complete his book on the white supremacist movement in the United States.

Zeskind, 48, is among the 29 new MacArthur Fellows announced Monday by the John D. and Catherine T. MacArthur Foundation of Chicago, which awards stipends to innovators to liberate them from financial constraints.

Winners cannot nominate themselves. A group of 100 or more anonymous voters chosen each year from a wide range of fields nominate potential recipients to the foundation's directors, who select the winners. The program began in 1981.

In addition to Zeskind, the fellows for 1998 are:

Junie Antoni, 34, New York, an artist who mixes traditional sculpture and conceptual art, \$225,000.

Ida Applebroog, 68, New York, a painter and social critic, \$375,000.

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Japan Says Strong Yen's Era Is Over

But Sakakibara Warns Against a Weak Currency

Compiled by Our Staff From Dispatches

TOKYO — Deputy Finance Minister Eisuke Sakakibara said Tuesday that he thought the days of a strong Japanese currency were over.

"The trend of the strong yen is finished," said Mr. Sakakibara, known as "Mr. Yen" for his apparent influence over the currency markets.

But he repeated the now regular official line that a weak yen was not wanted.

"Excessive falls in the yen are undesirable," he told a symposium of the Institute for International Monetary Affairs in Tokyo.

"It is important to correct foreign exchange imbalances in Southeast and East Asia through the internationalization of the yen," he said.

The dollar was trading at 138.695 yen at 4 P.M. in New York, down from 139.650 yen on Monday.

Meanwhile, Finance Minister Hikaru Matsunaga said he was "strongly" concerned by the yen's weakness. "We will take determined action at the appropriate time," he said.

Despite the yen's slump, Mr. Sakakibara said Japan's record stimulus spending package, unveiled in April and worth \$125 billion, would pull the country's economy out of crisis.

"The Japanese government has already done or is doing what it should do and the perception of the recovery is very likely to change," he said. He ruled out future tax cuts.

Separately, Japanese companies that have rushed to set up overseas factories may need to rethink that strategy if the dollar climbs much further against the yen, executives and analysts said.

"The yen's fall means a fall in credibility in Japan," a Sony spokesman said. "We are concerned about the economy and also concerned that any further boost in our exports could rekindle friction with the United States."

The yen's renewed weakness is still a boon for Japanese exporters, helping them to weather stagnant sales at home and in Asia. (AFP, Reuters)

Some Visions

Peter Schwartz foresees a "long boom" of growth driven by technology. Here are some of its ingredients: By 2005, phone and high-speed Internet access for everyone. By 2010, gene therapies to reverse aging. By 2015, simultaneous language translation, made possible by computer chips 100 times more powerful than today's. By 2020, the death of the internal combustion engine. Cars are powered by hydrogen fuel cells.



Peter Schwartz

Some Stumbles

Though often prescient, Peter Schwartz has also misread the future: In 1981, he was an author of a book that assumed oil prices were on their way to \$85 a barrel. In the early 1980s, he was too gloomy about the prospects for the American economy. He failed to understand the entrepreneurial impact of the PC industry. In 1994, he missed the Mexican financial crisis. He was the host of a conference on Mexico's future a few weeks before but did not consider the possibility.

The New York Times

A Firm Run on a Positive Outlook

Futurist Who Foresees 'Long Boom' Draws Clients to Consultancy

By Steve Lohr
New York Times Service

SAN FRANCISCO — Peter Schwartz is a professional marketer of big, brow-furrowing ideas. By 2020, he says, the internal combustion engine will probably have gone the way of the dodo bird as conventional automobiles are replaced by hybrid cars powered by fuel cells that mostly use hydrogen.

A telecommunications revolution, Mr. Schwartz believes, is coming even sooner. Thanks to big satellite projects, connections for high-speed Internet, telephone and video will be commonplace in six years or so.

The world will be wired, inexpensively. By 2005, teen-agers in villages in developing countries will be chatting on video phones as they surf the Net.

By 2010, Mr. Schwartz predicts, breakthroughs in biotechnology and gene therapy may enable science to reverse aging and extend life. The prospect here, he insists, is not merely a prolonged old age but living for decades in one's biological 40s.

Yet these are mere ingredients of Mr. Schwartz's biggest idea, which he calls the "Long Boom." His thesis is that the world is witnessing what Mr. Schwartz calls "the beginnings of a global economic boom on a scale never experienced before," driven by work, a research and consulting firm. His manifesto first appeared as a cover story last summer in *Wired* magazine, whose pages generally celebrate the virtues of technology.

Ever since, he has found himself at the center of a spirited debate about technology and the future. Bearded, affable and articulate, Mr. Schwartz is a skillful salesman who has won supporters for his ambitious idea, but he has been roundly criticized as well.

In March, a loose-knit group calling itself the "Technorrealism Project" emerged. Tenets posted on its Web site, at www.technorrealism.org, include the assertion, "The Internet is revolutionary, not utopian."

Andrew Shapiro, a fellow at the Harvard Law School's Center for the Internet and Society and a founder of the Technorrealism Project, said,

"We're just skeptical of the kind of sheer boosterism that Peter Schwartz is promoting."

Mr. Schwartz recently debated the merits of the Long Boom with Daniel Yankelovich, the public opinion analyst and president of Public Agenda, a research organization, at a conference in San Diego. In Mr. Yankelovich's view, the Long Boom betrays a "remarkable naivete" not only about technology but also about the working of market economics.

"The market is great at distributing economic goodies," Mr. Yankelovich said, "but it doesn't have all these moral virtues that Peter Schwartz attributes to it."

As a futurist, Mr. Schwartz has impressive credentials. An alumnus of the Stanford Research Institute, now SRI International, he led a planning team at the Royal Dutch/Shell Group in London from 1982 to 1986. One of three possibilities drawn up in 1982 by Mr. Schwartz and his team was that oil prices would collapse.

That possibility was taken seriously by Shell's senior management, which piled up cash to prepare. After prices fell precipitously, Shell began a \$3.5 billion buying spree in 1986, snapping up oilfields and locking in a long-term cost advantage over most of its rivals.

The Shell legacy gave Mr. Schwartz and four colleagues a head start in attracting corporate clients when they

See FUTURIST, Page 17

Indonesia Plunges Toward Recession

First-Quarter GDP Drops 6.2% From 1997

Compiled by Our Staff From Dispatches

JAKARTA — Indonesia is headed for its first recession in more than three decades as the collapse of the rupiah and surging interest rates slow domestic business, the central bank said Tuesday.

Gross domestic product contracted 6.2 percent in the first quarter from the year-earlier period. It fell 8.5 percent from the previous quarter, the Central Bureau of Statistics said. It was the first time Indonesia had released quarterly GDP figures.

The shrinking economy is pushing unemployment up sharply, the country's manpower minister said. Fahmi Idris said unemployment this year would hit 15.4 million — 17.1 percent of Indonesia's 90 million work force. The forecast was revised up from a previous projection of 13.4 million.

Stigito Suwito, chairman of the Central Bureau of Statistics, said Monday that he expected the economy to shrink 10.1 percent this year, with inflation rising between 80 percent and 85 percent and even breaching 100 percent if Indonesia saw a repeat of the riots that ravaged Jakarta in May.

The bureau said the inflation rate in May was 5.24 percent, bringing the year-on-year rate to around 52 percent.

For many Indonesians, from the swelling ranks of the country's unemployed to its largest corporations, life is getting harder. Quickening inflation is sapping spending power and eroding the value of savings.

Although the economies of other Asian countries are also shrinking — Hong Kong's GDP shrank 2 percent in the first quarter, while Malaysia's contracted 1.8 percent — Indonesia's outlook is the grimdest.

President B.J. Habibie called for national unity to help the country weather the economic storm.

"We must be aware that each 1 percent contraction in the economy will cost hundreds of thousands of jobs," he told a delegation of religious leaders. "Therefore, we must think how we can overcome the problems of development."

Indonesia's latest budget, agreed with the International Monetary Fund in April, projected an economic contraction of 5 percent in 1998, inflation of 45 percent and a rupiah rate of 6,000 to the dollar.

But the IMF says these targets now need to be redrawn. On Tuesday, the dollar was at 11,850 rupiah, up from 11,650 Monday.

Stanley Fischer, the IMF's first deputy managing director, said in Tokyo that loans under a \$43 billion rescue plan could resume after the Fund had considered a report due to be presented by a review team "in a couple of weeks."

He said most reforms demanded by the IMF would remain, but the economic targets in the program would be revised.

Loan payments were put on hold pending a review of Indonesia's political and economic situation following weeks of social unrest that led to President Suharto's replacement by Mr. Habibie on May 21.

The relentless decline in the rupiah and the continued high interest rates are casting a shadow over negotiations between Indonesian debtors and international banks on new repayment terms for the more than \$78 billion Indonesian companies owe internationally. Bankers and Indonesian officials are meeting in Frankfurt this week to talk about the problem. As with two earlier rounds of talks, this one has reported no progress.

The currency's decline in the past year has caused the rupiah value of companies' foreign debt to quadruple.

"There's no business activity going on at all," said Jimmy Koh, a regional economist at Independent Economic Analysis Holdings Ltd. in Singapore.

A full-blown recession — two consecutive quarters of economic contraction — is a foregone conclusion.

"In another six to 12 months, we'll likely see the corporate sector being hit harder by the turmoil," said Andy Tan, an economist at research firm MMS International in Singapore.

Big companies like the automaker PT Astra International and the domestic phone monopoly PT Telkom have reported losses in recent weeks, and analysts are worried that companies will not generate enough cash to meet payrolls and continue production. With interest rates at more than 60 percent, borrowing is not an option for most.

(Reuters, Bloomberg)

Did Buffett Make Wrong Bet on Silver?

A Sharp Fall in Prices Makes Much-Heralded Investment Look Ill-Advised

By Jonathan Fuerbringer
New York Times Service

NEW YORK — One of the most heralded investment bets of the last year — Warren Buffett's purchase of almost 130 million ounces of silver — now appears to be a money loser.

The price of silver in the last week has dropped close to \$5 an ounce, bringing it significantly below the average price of Mr. Buffett's silver purchases. At one calculation, he now has a paper loss of at least \$14.1 million, a 2.1 percent decline in the value of his entire silver investment.

In the 1997 annual report for Berkshire Hathaway Inc., his investment vehicle, he said he had a profit of \$97.4 million on his silver investment as of the end of last year.

For Mr. Buffett, these losses are no more significant in his portfolio than his bridge losses. But they have been far more painful for the investors who like to follow Mr. Buffett wherever he goes.

When he announced his silver investment after the close of the markets on Feb. 3, the price of silver on the Comex division of the New York Mercantile Exchange had already soared to \$6.615 an ounce, 53 percent higher than it was on July 25, when Mr. Buffett began accumulating the metal. The price quickly shot as high as \$7.40 an ounce in intraday trading on Feb. 5. Then the hangover began to set in.

By Feb. 17, the closing price of silver had fallen below \$7 an ounce; it then

bounced around between \$6.50 an ounce and \$6.60 an ounce until the beginning of May. Since then the price has gone only south. In late trading Tuesday, silver was quoted at \$5.1680 an ounce, up 11.3 cents.

An investor who bought a 5,000-ounce silver contract at the lowest intraday price on Feb. 4, the day after the Buffett announcement, paid \$33.550. At Tuesday's price, that contract was worth \$25,840, a drop of 22.8 percent.

"The people who have gone along with him are feeling reasonably bruised by the experience," said Dinesh Mehta, the managing director for global commodities at Chase Manhattan Bank. "They don't have his staying power, and they don't have his portfolio diversity."

It is not clear if Mr. Buffett has actually lost any money. The calculations of the current value of his investment do not assume he has sold any silver or lent any of it out to traders or others who needed silver.

There have been rumors that he sold silver, but he has refused to comment on that. He did say at his company's annual meeting in the beginning of May that he had lent silver, which would bring in a little income. He said that it was only a "small" amount but gave no figures.

These calculations also do not include Mr. Buffett's cost of storage for the silver he bought.

The current value of the Buffett holdings are based on the Berkshire Hathaway annual report for 1997.

At the time he announced the silver

purchase, Mr. Buffett said its total value amounted to less than 2 percent of Berkshire Hathaway's investment portfolio.

He bought control of 111.2 million ounces of silver in 1997. The value at the end of the year was \$665.87 million based on the Dec. 31 closing price. Subtracting a profit of \$97.4 million, leaves \$568.47 million as the cost of his investment, or an average of \$5.112 an ounce. At Monday's closing price of \$5.055 an ounce, the loss is \$6.35 million.

The price of 18.5 million ounces of silver he bought on Jan. 12, 1998, is not known. But Mr. Buffett has said his last purchase was on Jan. 12, when the price was \$5.475, the lowest price of the year.

Assuming he bought all 18.5 million ounces at this price, his loss on this silver is now \$7.77 million. If he bought some of the 18.5 million ounces earlier in 1998, his loss would be larger. At the average price from Jan. 2 to Jan. 12, his loss is \$14.43 million.

This means his paper loss ranges from \$14.1 million to \$28.5 million.

More heartening for investors who are facing losses at the moment, Mr. Buffett seemed to reaffirm his confidence in the outlook for silver at the annual meeting, as he repeated his reason for buying it: "We thought that the figures on production and demand were such that it would require a higher price to establish equilibrium." But Mr. Buffett is not the type to tip off what he is doing in advance.

Indeed, Republic's capitalization ratio, on a risk-adjusted basis, is twice as great as that required by the world's international banking regulators.

At Republic National Bank we believe that hard-earned wealth deserves to be nurtured and preserved. And so we run our bank according to one fundamental principle: to protect our clients' capital as we safeguard its purchasing power.

It is a simple principle upon which we base our brand of financial conservatism: private banking built upon rigor, discipline and prudence. This sophisticated conservatism, vigorously pursued, has created a global private bank of exceptional stability, capable of weathering the roughest storms.

To our way of thinking, it is security as well as return that we must ensure each day. And in the process, to provide a unique quality of service, understanding and discretion.



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* Republic National Bank of New York, 1998

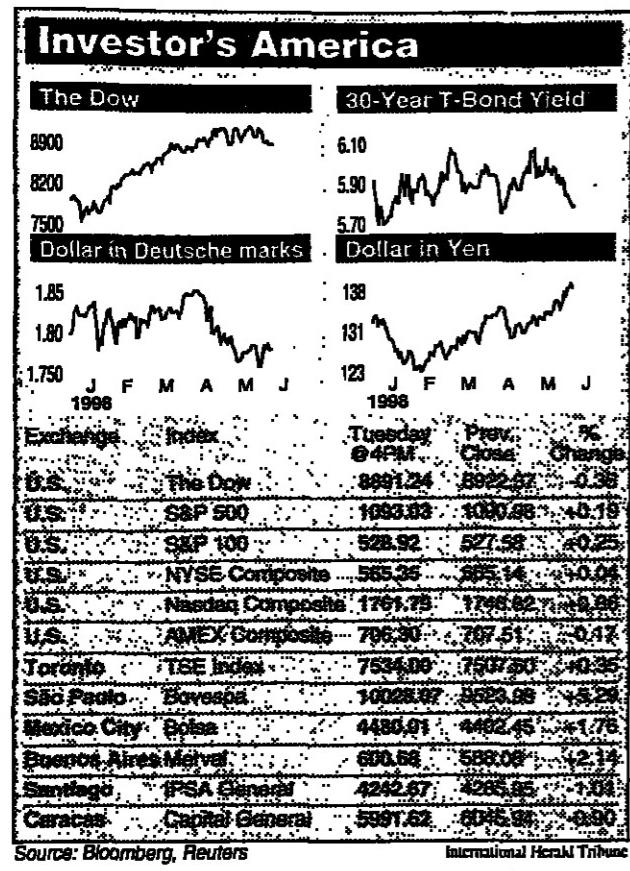
CURRENCY & INTEREST RATES									
Cross Rates									
U.S.	£	DM	FR.	Lin.	DFI	SLP.	SEK.	Sw	

THE AMERICAS

Sprint Offers Phone, Fax and Net on 1 Line

*Jitters Halt
Dollar's Gain
Against Yen*

Compiled by Our Staff From Dispatches



Compiled by Our Staff From Dispatches

NEW YORK — Sprint Corp. raised the stakes in the telecommunications wars Tuesday, offering customers the chance to simultaneously talk on the phone, receive faxes and connect with the Internet using a single phone line.

The No. 3 U.S. long-distance phone company said it expected the service to eliminate the need for customers to have multiple phone lines.

Sprint said the new network, developed at a cost of more than \$2 billion over five years, can reduce the cost of delivering a typical voice call by 70 percent, compared with existing networks. It can also provide full-motion video calls and conference calls at a cost less than that of a typical long-distance call, Sprint said.

"We will be offering every Sprint

customer their own multibillion-dollar, unlimited-bandwidth network in the same monthly price range that many customers spend today for communications services," said William Esrey, the chairman and chief executive.

Sprint shares closed 50 cents higher at \$2.4375 on the New York Stock Exchange.

The introduction of the service comes as phone companies race to allow customers to send and receive data and other transmissions at faster speeds. The network, called Integrated On-Demand Network, will allow users to access the Internet at speeds up to 100 times faster than a typical modem, the company said.

Two weeks ago, BellSouth Corp. said it would offer high-speed Internet access in 30 cities by next

year. U.S. West announced in early May that it would introduce high-speed Internet access using asymmetrical digital subscriber lines in 40 cities.

Sprint said its new service results from a combination of technological advances rather than a single technology and results from five years of confidential work.

It expects to start making the service available to large businesses this year and expand it to businesses of all sizes by the middle of 1999. It should be available to residential users in late 1999. Sprint said it hoped to make the service available in 36 major markets this year and a total of 60 markets next year.

"This is the Big Bang that expands the universe of what telecommunications can do in our homes and businesses," Mr. Esrey said.

The network is based on Cisco Systems Inc. hardware and uses software from Science Applications International Corp.'s Bellcore.

Sprint, which trails AT&T Corp. and MCI Communications Corp. in the long-distance business, is the first to announce a new system on such a large scale.

There have long been promises of full-service networks offering everything from video on demand, electronic shopping and more. But telephone companies need greater capacity and more efficient transmission technologies to send the huge amount of data.

Carriers now use different transmission technologies for voice and data. Experts said an integrated network is needed to combine voice, video and data and pipe them over the same lines. (AP, Bloomberg)

Compiled by Our Staff From Dispatches

NEW YORK — The dollar slipped against the yen Tuesday, after four days of gains, limited by nervousness that Group of Seven officials meeting next week might discuss the yen's sharp fall.

"It's in the G-7's interest to stabilize the dollar-yen rate," said Gerard Lyons, chief economist at DKB International in London.

"Yen weakness puts pressure on other Asian currencies, and the last thing they want to do is trigger another round of currency devaluations in Asia."

Japanese officials said deputy finance ministers of the group of leading industrialized nations were

FOREIGN EXCHANGE

to meet in Paris next week to discuss currency movements and Russia, sparking speculation among traders that the officials might agree on international support for the beleaguered Japanese currency.

In 4 P.M. trading, the dollar fell to 138.695 yen from 139.650 Monday, but analysts said some profit-taking was in order after the dollar's climb in recent weeks.

"We're due for a correction anyway," said Michael Rosenberg, global currency strategist at Merrill Lynch. "So I would not be surprised with or without intervention to see the dollar dip to 136 or 135 yen."

He added that the market had been getting increasingly nervous as the dollar neared the psychological barrier of 140 yen, with many fearing intervention above there.

The dollar was slightly higher against the Deutsche mark, at 1.7805 DM from 1.7784 DM, underpinned by the 5.2 percent jump in U.S. home sales in April to a record high.

Saying the United States "shares" Japan's concerns about the decline in the value of the yen, Treasury Secretary Robert Rubin confirmed that the G-7 meeting would discuss Russia but declined to say whether Washington wanted to discuss the falling yen at the Paris talk.

Against other currencies, the dollar rose to 5.9700 French francs from 5.9645 francs and to 1.4300 Swiss francs from 1.4762 francs.

The pound slipped to \$1.6384 from \$1.6412. (Bridge News, Bloomberg)

Stocks Mixed as Technology Issues Rebound

Compiled by Our Staff From Dispatches

NEW YORK — Stocks were mixed Tuesday as concern that share prices were not justified by expected earnings for companies offset a rally in computer stocks.

The Dow Jones industrial average closed 31.13 points lower at 8,891.24.

But the Standard & Poor's 500 Index rose 2.05 points, to 1,093.03, and the technology-heavy Nasdaq composite index climbed 14.97 points, to 1,761.79. Advancing stocks led decliners by a 10-to-9 ratio on the New York Stock Exchange.

Computer-related stocks mostly rose, a day after a slide in Asian markets and reaction to Intel's delay of a new microprocessor sent them tumbling.

Intel rose 14 to 694, and Dell Computer gained 4 5/16 to 824. Those two stocks were the most active issues. Oracle gained 1 1/2 to 24 5/16, and Microsoft jumped 2 to 83 3/4.

"I am a bull on technology stocks, longer term," said Joe Keating, chief investment officer of the Kent Funds. When inflation is low, the main way to increase profits is to become more efficient and productive, he said, "and the only way to do that is to turn to technological solutions."

Investors have been in a tug of war since the end of the first quarter that has left market indexes little changed. Traders and investors are debating how much Asia's slowing economies and weak currencies will cut U.S. corporate profits.

Bullish investors say the market's gains are justified.

Reported that new-home sales in the U.S. stocks right now," said Jeffrey Eglow, chief investment officer at Highlander Capital Management LLC in Parsippany, New Jersey. As Asia slumps, investors

are jumping 5.2 percent to a record in April, while the Conference Board's research group reported that its gauge of future economic activity rose 0.1 percent in April, compared with a 0.2 percent gain a month earlier and its fourth consecutive monthly advance.

Meanwhile, GM rose 1 15/16 to 73 1/16, and Ford Motor jumped 2 11/16 to 55 9/16 as investors bought before the company's May sales results Wednesday. Chrysler, which reported a 27 percent sales increase over May 1997, fell 1/16 to 55 13/16.

American Home Products fell 2

to 47 3/16, leading decliners in the S&P 500, a day after the company agreed to link up with Monsanto in a \$35 billion stock swap transaction that will depress American Home's earnings by up to 15 percent in the year in which it is completed.

Campbell Soup rose 1 to 55 5/8 after it announced a new stock-buyback plan, for as much as \$2 billion, and said Chairman David Johnson would remain in that post through July 1999, a year beyond his scheduled departure.

Big international banks gained after markets in Japan and Russia recovered from losses Monday. (Bloomberg, AP)

Goldman, Sachs Considers Going Public

By Robert O'Harrow Jr.
Washington Post Service

NEW YORK — Goldman, Sachs & Co. may begin selling shares to the public this year, a move that would help Wall Street's last major private partnership raise cash for other acquisitions.

The proposal for the 130-year-old investment firm to go public gained momentum over the weekend, when senior Goldman partners agreed they would endorse it at a June 12 meeting. In an address to company employees Monday morning, the chairman and chief executive of Goldman, Jon Corzine said,

zine, suggested a decision was imminent. "The consideration of this issue will quickly come to a head," Mr. Corzine said, according to officials who heard him speak.

Partners will talk about going public at their annual meeting June 12 and may vote on a stock offering, Bloomberg News reported. The partners could be worth an average of \$76 million each if the nation's biggest investment banking partnership sells shares to the public.

In what company officials said was an unrelated announcement, Mr. Corzine said Henry Paulson Jr., the firm's president and chief

operating officer, would become co-chairman and co-chief executive.

The effort to move ahead with an initial public offering has been discussed for months, largely in response to mergers by Morgan Stanley Group and Dean Witter Reynolds Inc. last year, and by the Travelers Group Inc. and Citicorp this year.

Goldman officials reason that they will need to raise cash to make similar deals — and also would need publicly traded shares if they preferred to make purchases through stock swaps, the current vogue on Wall Street.

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Goldman officials reason that they will need to raise cash to make similar deals — and also would need publicly traded shares if they preferred to make purchases through stock swaps, the current vogue on Wall Street.

Very briefly:

• Tyco International Ltd. will buy Sigma Circuits Inc., a maker of circuits and circuit boards, for \$71.8 million in cash and assumed debt, expanding the electronics line of the maker of medical supplies and security systems.

• Amoco Corp. and its partners, Repsol SA, BG PLC and Cabo Corp., will quadruple their investment in a plant in Trinidad and Tobago, to \$4 billion, if the government approves two liquefied natural gas export contracts with Spain.

• The National Labor Relations Board will rule on a request by two McDonald's Corp. workers to allow a unionization vote at one of the chain's restaurants in suburban Cleveland.

• Brazil's unemployment rate fell to 7.94 percent in April from 8.18 percent in March, a 14-year high.

• The Federal Trade Commission's top litigator has recommended that the commission sue Intel for alleged antitrust violations, sources familiar with the case said.

• Xerox Corp. plans to spend \$270 million to build a color-toner plant in Ireland and consolidate its more than 50 European service centers into offices there.

• American Standard Cos. plans to shut an air-conditioner plant in Texas, eliminating 250 jobs, and move operations to Mexico to lower labor costs.

Bloomberg, Reuters, AP

NEC to Build a Chip Plant in U.S.

Agence France-Presse

TOKYO — NEC Corp. announced Tuesday that it would invest \$1.4 billion over a four-year period to build a next-generation chip plant in the United States before establishing one in Japan.

NEC said the new plant would be in California and would manufacture high-density semiconductor products.

The decision breaks with tradition among Japanese companies, which prefer to set up factories at home before venturing abroad. The new plant is expected to begin operations in 2002 and generate 700 jobs.

AMEX

Tuesday's 4 P.M. Close

The 300 most traded stocks of the day, up to the closing on Wall Street.

The Associated Press

Stock

Symbol

Name

Price

Chg.

Opn.

Vol.

Adv.

Per

Chg.

Opn.

Jitters Halt
Dollar's Gain
Against Yen

FOREIGN EXCHANGE

Central Bank Buoys Rand With Pledge

Compiled by Our Staff From Dispatches

JOHANNESBURG — Six consecutive days of loss were halted in South Africa on Tuesday, with the rand, bonds and stocks posting a recovery as the central bank vowed to defend the currency.

The governor of the Reserve Bank, Chris Stals, at a conference in Vienna, said that fundamentals remained strong and that the central bank had reserves of \$42 billion rand (\$8.09 billion) to stave off another assault like the one that forced the rand to a record low Monday.

But traders said the outlook for the rand remained grave. South African markets have been battered by a deepening crisis in confidence in emerging markets worldwide that economists said coincided with renewed worry over the country's fragile growth.

The central bank had raised its marginal lending facility to 33 percent Tuesday from 28 percent in a bid to shore up the currency. The rate rise pushed the benchmark all-share index 46 points higher, to 7,527.90.

"I think the international situation took priority over the domestic situation," Mr. Stals said. "I think we can still justify lower interest rates."

The dollar finished at 5.173 rand in local trading, down from 5.193 rand on Monday, when the central bank said it borrowed 7.9 billion rand in May to shore up the rand, driving net reserves down 33 percent, to 15.8 billion rand.

Traders say the rand still faces concern over the news the central bank had dug deep to defend the currency last month still dogging its outlook.

"The reserves data was very serious," said a foreign exchange dealer at a foreign bank in Johannesburg. (Reuters, Bloomberg)

A Nordic Paper Giant Is Born

Stora to Acquire Finnish Rival in \$3.3 Billion Purchase

Compiled by Our Staff From Dispatches

HELSINKI — Stora AB, a Swedish forest-products company, agreed Tuesday to buy Enso Oy, its Finnish rival, in a deal that would form one of the world's biggest paper makers.

Stora shareholders will own 60 percent of the new company after the acquisition. Direkt, a local news service, reported. It did not give further details. The purchase is worth at least \$3.3 billion, or Enso's market value.

The Finnish government, which owns 44 percent of Enso, approved the sale Tuesday and will ask Parliament for final clearance.

Together, the two companies will produce about 13 million tons of paper and board, matching Jefferson Smurfit Corp. after its purchase of Stone Container Corp.

"In this industry, size is im-

portant," said Anders Jarheim, Scandinavian equity fund manager at Oehman Fonder in Stockholm.

Stora's market capitalization is about \$5 billion.

Trading in Enso and Stora shares was suspended during the talks, but shares of other Nordic papermakers rose on expectations of further consolidation of the industry.

Paper companies around the world are combining to raise profit through economies of scale. The price of pulp, a benchmark product used to make paper, is down 4 percent this year at about \$550 a ton, or half what it cost in 1995.

The deal would enable Enso to gain a foothold in emerging markets, particularly in South America and in Asia, through alliances made by Stora. In return, Stora would be able to carry out all of its trading in the planned European

single currency because Finland is one of the 11 European Union countries that have qualified to use the euro at its introduction Jan. 1.

The new company will have about 3.8 percent of the global paper and board market, topping International Paper Co.'s 3 percent, although falling just below Jefferson and Stone's 4 percent, according to Salomon Brothers Inc. and Stora.

Together, Stora and Enso have a market value of 46 billion markkae (\$8.5 billion). They had sales of about \$1.5 billion each in the first quarter. Their combined 1997 sales were \$11 billion. (Bloomberg, Reuters)

GEC Alsthom to Sell Up to 56% of Shares

Compiled by Our Staff From Dispatches

PARIS — GEC Alsthom said Tuesday that up to 56 percent of its shares would be sold in a 26.6 billion franc (\$4.46 billion) initial public offering as it seeks to develop independently of its parent companies.

GEC Alsthom and its two shareholders — Alcatel Alsthom of France and General Electric Co. of Britain — will sell up to 120.96 million shares at between 190 francs and 220 francs each in what will be Europe's largest nonprivatization initial public offering. If all options are exercised, the sale will cut the stake of Alcatel and GEC to 21 percent each, from 50 percent each.

Investors were able to start placing orders Tuesday, with shareholders in Alsthom.

The share sale will let GEC Alsthom, known for its TGV high-speed trains, expand on its own without first having to seek approval from its parent companies, which have differed about the direction of the company. GEC Alsthom said it would seek acquisitions and alliances to unseat Admaz AG as the world's top maker of trains and ABB Asea Brown Boveri Ltd. as the leader in energy-distribution equipment.

"This is a company with strong leadership positions in several sectors — it's a large issue of unquestionable quality," said Jean-Claude Petit of Barclays Asset Management France.

Investors were able to start placing orders Tuesday, with shareholders in Alsthom.

Alcatel and GEC having priority. The offer, which must still be cleared by the French stock market regulator, is expected to close June 19 and the final price is to be set June 20.

Shares are to start trading June 22 in Paris, New York and London. The company, whose principal exchange will be Paris, is expected to become part of the CAC-40 index.

Alsthom will also increase its capital through the issue of about 11 million new shares. Including the capital increase, about 52 percent to 57 percent of the company will be floated. GEC Alsthom posted a net profit of 302 million European currency units (\$407.1 million) in 1997 on sales of 11.1 billion Ecuus. (Bloomberg, AFP)

Fiat Offers Romiti Stock In 2 Units

Bloomberg News

MILAN — Cesare Romiti, the departing chairman of Fiat SpA, has been given the option to buy Fiat's stake in Gemina SpA and in Holding di Partecipazioni Industriali SpA, known as HDP, the companies involved said Tuesday.

Mr. Romiti will leave Fiat this month after reaching the mandatory retirement age. He confirmed Tuesday that he would head HDP's RCS Editori unit, the publisher of two of Italy's widest-selling newspapers, Corriere della Sera and Gazzetta dello Sport.

Fiat offered Mr. Romiti the option of buying 5.5 percent of HDP, which also owns the fashion house Valentino and the clothing maker GFT. Mr. Romiti was also offered Fiat's 18.8 percent stake in Gemina, which controlled HDP until 1997.

"Investors are betting that Romiti's arrival heralds some moves to unite Gemina and HDP again, or other projects that will add value to the company's assets," said Corrado Berlinda, a stock manager at Euroconsult SIM in Milan.

HDP's shares rose 29 lire, to 1,612 (.92 cents), while Gemina gained 67 lire, to 1,578, and Fiat rose 135 lire, to 7,810.

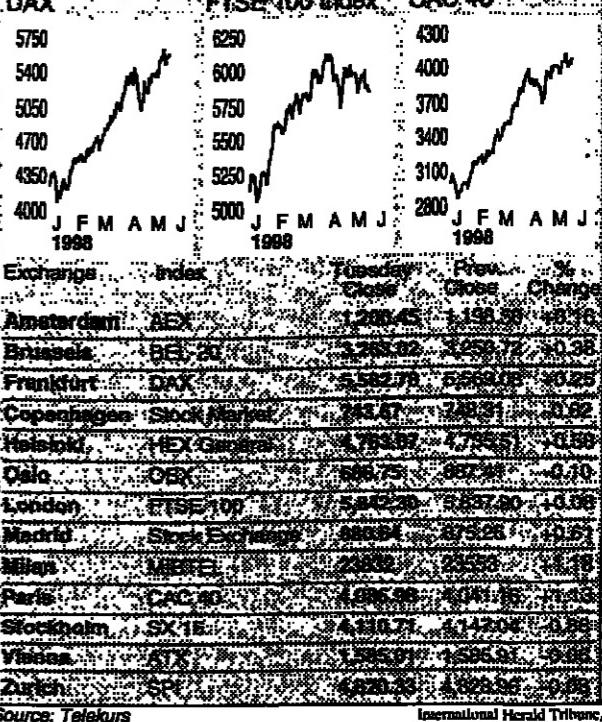
Talk that HDP may move RCS, which owns, into a separately traded company and sell its shares on the market helped the stock, said Carlo Scomazzoni, an analyst at Monte Paschi Mercato in Milan.

"RCS will improve a lot under Romiti," said Gaetano Afefra, a board member.

Fiat said it granted Mr. Romiti an option to buy 2 percent of HDP by July 15, at average May stock prices, and a further 3.5 percent by Dec. 31, 2000, at the average price of the month in which the option is exercised.

Investor's Europe

Frankfurt DAX London FTSE 100 Index Paris CAC 40



Source: Telekurs

Very briefly:

- Vickers PLC, which has agreed to sell its Rolls-Royce Motor Cars Ltd. unit to Volkswagen AG for £430 million (\$704 million), said the process could be delayed several months if shareholders do not approve the sale Friday. Depending on the outcome, VW said it was considering turning its Czech subsidiary Skoda AS into a maker of luxury cars.
- ABB Asea Brown Boveri Ltd., the Swiss-Swedish engineering company, its power unit ABB Kraft AS and Siemens AG have been reported to police on suspicion of illegal price fixing by Norway's competition watchdog.
- National Grid Group PLC, which runs Britain's power transmission network, said pretax profit for the year ended March 31 before exceptional items was £467.7 million, down from £591.4 million the previous year.
- Camelot Group PLC's profit for the year that ended in March rose 14 percent, to £80.9 million, as the operator of the British lottery saw sales rise 15 percent to £5.51 billion.
- Spain's jobless rate, as measured by the National Statistics Institute in a survey of households, fell to 19.28 percent in the three months through April from 19.63 percent in the three months through March.

(Bloomberg, AFP, Reuters)

WORLD STOCK MARKETS

Tuesday, June 2

Daily prices in local currencies.

Telefers High Low Close Prev.

Amsterdam AEX Index 1904.50 Previous: 1904.50

ABN-AMRO 42.20 42.20 42.20 42.20

Aerop 16.50 16.50 16.50 16.50

Alpha 4.50 4.50 4.50 4.50

Alpha Net 1.50 1.50 1.50 1.50

ASML Lith. 7.70 7.70 7.70 7.70

AT&T 1.70 1.70 1.70 1.70

AVL Verz. 1.70 1.70 1.70 1.70

Baillie Gifford 1.50 1.50 1.50 1.50

Banque Post. 1.50 1.50

ASIA/PACIFIC

Hong Kong Reprimands Morgan Stanley

By Philip Segal
International Herald Tribune

HONG KONG — The Hong Kong securities regulator reprimanded Morgan Stanley & Co. on Tuesday, saying the investment bank was guilty of misconduct in a high-profile deal and had "impugned its fitness and propriety to be registered" as an investment advisor.

The unusual public rebuke by the Securities and Futures Commission, which provides no sanctions, involves a transaction last year in which one of China's high-flying "red chip" companies in Hong Kong — China Everbright — had already received a rare challenge from the regulator as well as from the stock exchange.

Red chips, which are China-based companies incorporated in Hong Kong but backed by the Beijing government, were the sub-

ject of a speculative craze last year until the Asian financial crisis.

The securities commission said that Morgan Stanley in May 1997 failed to disclose to the market its expectations that China Everbright IHD-Pacific — one of several Everbright group companies listed in Hong Kong and since renamed China Everbright Ltd. — would receive permission to take a 20 percent stake in the parent company's bank. The acquisition, a month later, proved popular with investors because it marked the first time that foreigners could invest indirectly in a mainland commercial bank.

Morgan Stanley "did not fulfill its regulatory responsibility to ensure that the public was told this information," the regulator said. But the regulator disagreed, saying, "The commission has concluded after careful consideration that Morgan Stanley knew what was required of it as a registered in-

vestment adviser and failed to meet such requirements."

"We are aware of the SFC's reprimand and strongly disagree with their findings," a Morgan Stanley spokesman said. "Contrary to the SFC's statement in its press release, Morgan Stanley Asia had no expectations whatsoever that regulatory approvals would be granted shortly in China to allow IHD to acquire a stake in the Everbright Bank of China."

China Everbright Group declined to comment.

Morgan Stanley insists it breached no guidelines because there were no guidelines to follow.

"We therefore think it is inappropriate for the SFC to use disciplinary action to set guidelines respectively," the spokesman said.

But the regulator disagreed, saying, "The commission has concluded after careful consideration that Morgan Stanley knew what was required of it as a registered in-

vestment adviser and failed to meet such requirements."

This is not the first time that regulators have investigated the deal. Last year, the Securities and Futures Commission blocked a rights issue worth 1.9 billion Hong Kong dollars (\$245.2 million) proposed by China Everbright on the grounds that the company was too vague in stating why it needed to raise the money.

The company told the stock exchange that the proceeds would be used for "general working capital," but rumors began flying that it was seeking the Everbright bank stake.

On the day that the acquisition of the bank stake was announced, shares in Everbright IHD rose by 37 percent.

Everbright is backed by the State Council, or cabinet, in Beijing. Its chairman is Zhu Xiaohua, a former deputy governor of the People's Bank of China and a protégé of Prime Minister Zhu Rongji.

Strike Puts Ford Bid at Risk, Kia Says

By Don Kirk
International Herald Tribune

SEOUL — The top executive of Kia Motors Corp. said Tuesday that Ford Motor Co. was interested in acquiring a majority stake in the struggling South Korean automaker, but he warned that labor unrest could threaten the deal.

Yoo Chong Ryul, appointed chairman by a court a month ago as Kia went into receivership, said Ford was forming a consortium with Mazda Motors Corp. and other companies to bid for a stake. Ford

already owns 9.6 percent of Kia, while Mazda owns 6.7 percent. Ford also owns 33 percent of Mazda.

Mr. Yoo said Ford was a last hope for Kia, which is saddled with debts of more than 10 trillion won (\$7.16 billion). But he warned that a strike by workers at the company's two main plants could torpedo the deal.

"If the labor relationship is not resolved," Mr. Yoo said, "Ford will consider differently with regard to cooperation with Kia."

The walkout by 14,000 workers since Monday has added urgency to the struggle of a company that fell to No. 3 from No. 2 among Korean automakers after admitting it could not pay its debts and applying for receivership nearly a year ago.

Kia had made clear its strong opposition to a takeover by Hyundai Motor Co., the No. 1 automaker. Ford has broken off talks with Samsung Motor Co., which went into production in March.

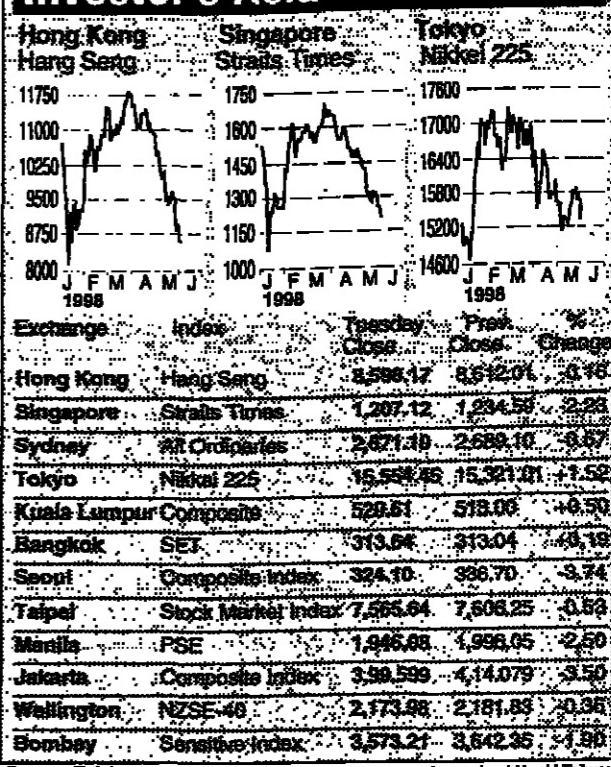
Mr. Yoo spoke here last month with the vice chairman of Ford, Wayne Bookner. He goes to Tokyo next week for more talks.

"Should Ford take over Kia, Ford will use Kia for producing Kia's cars under the Ford name," said Lee Chong Dae, president of the Kia Research Institute. "Kia's export volume will increase drastically."

"We're willing to do what we can to help Kia return to global competitiveness," a Ford spokesman told Bloomberg News. "Under certain circumstances, we're willing to look at increasing our investment in Kia." He declined to specify those conditions.

Ford executives have said they want to protect their investment and preserve the flow of vehicles the company receives from Kia. But they have ruled out increasing Ford's stake if it requires shouldering Kia's huge debt.

Investor's Asia



Source: Telakurs

International Herald Tribune

Very briefly:

• China's state-run railways will be reorganized and downsized to reduce costs and trim losses that have climbed to 16 billion yuan (\$1.93 billion) over the last four years, the railways minister said.

• Evergreen Group dropped plans to buy at least six long-range A340 aircraft worth \$900 million from Airbus Industrie. The parent company of Eva Airways Ltd. said ship and aircraft purchases were on hold until Asia emerges from its economic slump.

• The Electronic Industries Association of Japan said the worldwide semiconductor market will weaken in 1998 due to the Asian financial crisis but its long-term outlook remains good, as Asian chipmakers are still growing.

• Malaysia's securities regulator said it would give WK Securities Sdn. two weeks to find a merger partner. The broker's trading activities were suspended April 1 after it was found to have failed to "regularize its financial position."

• Suez Lyonnaise des Eaux SA will buy the 60 percent of PT Garuda Dipta Semesta it does not yet own as it seeks to regain the rights to provide water to half of Jakarta. The outstanding stake in the water utility is owned by the family of Anthony Salim, a longtime friend of former President Suharto.

• PT Astra International posted a first-quarter loss of 2.26 trillion rupiah (\$195.2 million), hurt by foreign exchange charges stemming from the rupiah's plunge. In the first quarter of 1997, the carmaker had a net profit of 119.8 billion rupiah.

• Pakistani shares rebounded as bargain hunters returned to prop up the market after it plunged 12.4 percent in its first day of trading after the country's nuclear tests. The benchmark index finished up 21.02 points, or 2.2 percent, at 932.46.

• The Petroleum Association of Japan said combined current, or pretax, profits of the 10 leading oil companies totaled 12.5 billion yen (\$90.1 million) in the year that ended March 31, a 68.8 percent decline from the previous year, due to lower prices.

AP, Bloomberg, Reuters, AFP

Taiwan Markets

Take No Heart From Stimulus

Compiled by Tom Stoen Donoghue

TAIPEI — The stock and currency markets dropped Tuesday to their lowest levels in five months as a government package of stock stimulus measures fell short of investors' expectations, analysts said.

The benchmark stock index finished down 40.61 points, or 0.53 percent, at 7,565.64.

The Taiwan dollar, undermined chiefly by the yen's weakness, also sank, with the U.S. dollar rising in local trading to 34.339 Taiwan dollars from 34.23 dollars on Monday.

The double decline dealt what analysts called an embarrassing blow to the government after officials announced a series of stimulus measures.

The Finance Ministry said it would speed approval of both foreign equity funds and local mutual funds.

"The government needs to take more bold moves to boost investors' confidence," said David Wu of President Investment Trust Corp.

The central bank has said there was no economic reason for the Taiwan dollar to follow the embattled yen's slide.

(Reuters, Bloomberg)

Slump in Property Prices to Cut Hong Kong GDP, Bank Predicts

Agence France-Presse

HONG KONG — A collapse in Hong Kong's property prices has hit the local economy hard, knocking 1.35 trillion Hong Kong dollars (\$174.2 billion) off the total value of private apartments, according to Hang Seng Bank Ltd.

The report by the region's leading bank forecast that the property market collapse would knock at least two percentage points off gross domestic product growth this year. It said a swift recovery was unlikely.

The report, issued late Monday, said that at the peak of the market in 1997, the value of the total stock of private homes was worth about 3.87 trillion dollars.

Since then, prices have slumped 35 percent, wiping out 1.35 trillion dollars in property values, equivalent to about 50 percent of total deposits in the banking system, Hang Seng Bank said.

It said that because of the huge increase in private property ownership over the last decade, the downturn would have a much more severe impact on the economy than the previous slump, in 1982-84.

Hang Seng Bank said there had been a change in the public's perception of government housing policy.

FUTURIST: Firm Draws Clients With Chief's Rosy Vision

Continued from Page 13

founded Global Business Network in 1988. "Everybody wanted the Shell magic," he recalled.

Global Business Network is no ordinary consulting firm. Based in Emeryville, California, where it occupies a converted factory in the shadow of the Bay Bridge, GBN is eclectic if not eccentric. Its character is evident in the backgrounds of its five founders.

Besides Mr. Schwartz, they are Jay Ogilvy, a former philosophy teacher at Yale University who was in charge of values and lifestyles research at SRI International; Napper Collyns, who spent 30 years in Shell's planning group; Stewart Brand, creator of the Whole Earth Catalog and a founder of the Well computer network, and Lawrence Wilkinson, former president of Clossen Pictures.

Today, Global Business Network is a small but thriving specialist firm. Compared with such mainstream consultants as McKinsey & Co. or Andersen Consulting, it is minuscule. Revenue is running at \$10 million a year, about double the level in 1994, while staff has also doubled, to 55 people. (McKinsey says it has 4,500 consultants in 81 countries.) The consultancy has roughly 100 clients, about half of which sent executives to the company's four-day annual conference in San Francisco last month. The client list is as eclectic as the firm, ranging from International Business Machines Inc.

and AT&T Corp. to the Pentagon, the government of Singapore and the National Education Association.

The conference concluded with an advance screening of the Dreamworks SKG movie "Deep Impact," which has since become a box-office hit. Global Business Network worked with Dreamworks on developing the film, and Mr. Schwartz and a few other firm members are mentioned in the film's credits.

At the San Francisco conference, four scenarios for the next decade were presented as narratives for the participants to read and debate. They ranged from crisis and decline to an equivalent of the Long Boom, all rendered in imaginative detail.

In the gloom-and-doom scenario, for example, the year 2000 computer bug and global warming are culprits in the tailspin. The European Union is shattered, the Middle East has water shortages, oil prices surge and inflation is ignited. In 2003, the scenario said, "the Dow plummeted from 10,000 to 6,000 in a matter of months." In Mexico, the economy crumbles, South American drug cartels move in, guerrilla wars flare and refugees flood north. "In 2010," the scenario asserted, "President Wilson sent in the U.S. Army to establish order in Mexico."

Certainly provocative and undoubtedly more entertaining than most business reading, but what use is this kind of thing to corporations? Most companies say the scenarios — whether broad ones, like those presented at the San Francisco con-

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AVIS DE CONVOCATION

Messieurs et Mesdemoiselles les Actionnaires sont convoqués par le présent avis à l'Assemblée Générale Statutaire de notre Société, qui aura lieu le 17 juin 1998 à 15.30 heures au siège social avec l'ordre du jour suivant :

ORDRE DU JOUR

- Rapports du Conseil d'Administration et du Réviseur d'Entreprises.
- Approbation des comptes arrêtés au 31 mars 1998 et fixation du dividende.
- Décharge aux Administrateurs.
- Réélection de Monsieur Marcel Giuglaris, Gar-Vie, représenté par Messieurs Daniel Fruchart et Philippe Delaby, la Compagnie Financière CIC et de l'Union Européenne, représentée par Messieurs Edouard Mansat et Philippe Cambre, la Caisse des Dépôts et Consignations, représentée par Madame Dominique Déaporte, Messieurs Bernard Fauché et Bruno Bouteille et la Financière et Immobilière, représentée par Monsieur Carlo Schlessier comme Administrateurs pour un nouveau terme statutaire de trois ans, expirant à l'Assemblée Générale Statutaire de 2001.
- Acceptation de la démission d'un Administrateur.
- Divers.

Les décisions concernant tous les points de l'ordre du jour ne requièrent aucun quorum. Elles seront prises à la simple majorité des actions présentes ou représentées à l'Assemblée. Chaque action donne droit à un vote. Tout actionnaire peut se faire représenter à l'Assemblée.

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in terms of dollar value, updated twice a year.
The Journal of Commerce

NYSE

Tuesday's 4 P.M. Close
(Continued)

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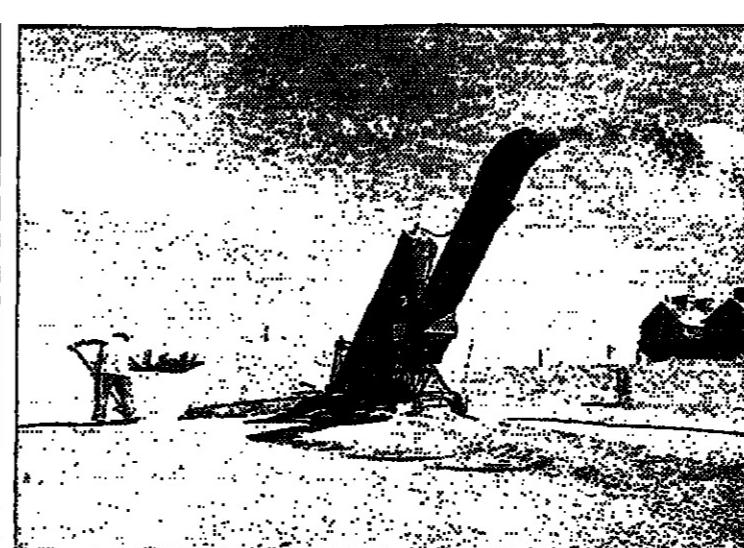
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and Kazakhstan.
Now, talk about
Kazakhstan.



SPONSORED SECTION

KAZAKHSTAN

A Vision for the future: Kazakhstan is building on its hard-earned economic strength and political stability to forge a new economy based on free market competition and technological advances. The country's strengths include vast natural resources, a large pool of skilled labor and a long history of specialization in energy, manufacturing and agribusiness, while its emerging capital markets and opportunities for privatization continue to attract high levels of foreign investment. Kazakhstan is deeply committed to regional cooperation and promises to be a force for stability and prosperity in the CIS and the region at large.



FROM COOPERATION TO PARTNERSHIP

An interview with Nursultan Nazarbayev, president of the Republic of Kazakhstan.

Now that Kazakhstan is recovering, would you consider raising finance on the international markets to help you to continue developing your economy?

Today, I have all the grounds to assert that the most dangerous path on the road toward a market economy has been passed. The

Kazakhstan economy is recovering, and there are signs of growth. It is hard to overestimate the part that foreign investments have played in this process. We have achieved macroeconomic stabilization and now have the possibility to resolve the social problems accumulated during those hard years. We can also start creating conditions for the development of smaller and medium-sized businesses, for reforming the rural economy and resolving concrete aims for certain enterprises.

How will this help you to export oil and gas?

Our country is showing an active readiness to deepen cooperation throughout the region. We take part in such economic associations as the Central Asia Union, the Economic Cooperation Organization and the Customs Alliance. These organizations provide an additional bridge that helps us integrate into the international community. This policy allows us to re-



economy that is highly technological, producing products based on the latest scientific advances and competitive in the world market. We can't achieve this objective without considerable capital investments. Our orientation toward foreign investments — both direct and indirect — will continue for the near future.

Continued on page 20

BUILDING A PLACE IN THE SUN

Kazakhstan has made huge strides since achieving independence.

Less than seven years after becoming an independent state, the Republic of Kazakhstan has embarked on a period of economic growth, with a stable currency, dramatically reduced inflation and new legislation to protect and encourage foreign investment.

The country's wealth of natural resources, including fertile agricultural land, rich

fishing grounds, abundant animal herds, gold, silver, uranium and coal, and huge deposits of oil and gas are now being developed for export to international markets and to serve the domestic population of 16.4 million.

Democratic reforms are continuing, as is the country's commitment to making full use of its educated and skilled workforce.

Located between Europe and China, Kazakhstan is physically impressive. The vast grasslands of the steppe spread across much of the country. The southeast boasts the magnificent snow-covered Tien Shan and Altai mountain ranges, first crossed by caravans traveling the 4,000-mile Silk Road in the 2nd century B.C. In between are the long river val-

leys and lakes, bordered in the west by the Caspian Sea. Altogether, its territory covers 2.7 million square kilometers, making Kazakhstan the ninth largest country in the world.

Like many of the states in the former Soviet Union, the country is recovering from 70 years of outside domination and the disruption of trade routes, the disappearance of

markets and supply lines, the abolition of transfer payments and the collapse of established institutions that followed independence in 1991.

Last autumn, President Nursultan Nazarbayev, who has headed the country since independence, announced a long-term strategy looking ahead to the year 2030. It emphasizes liberal reforms and the integration of this

country into the global market economy.

The country's industries, he maintains, must "work under new conditions, producing not a gross output as it used to be in Soviet times, but high quality goods and services that obey the laws of competition." He adds: "The investment climate of this

Continued on page 21

Kazakhstan. Huge oil reserves. Very investor friendly. A brilliant future. A great opportunity. We're Hurricane Hydrocarbons, a Canadian oil and gas exploration company producing oil in Kazakhstan - a lot of oil.

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With capital expenditures and the introduction of new oil recovery methods, we are contributing to Kazakhstan's vibrant oil industry, and to the future of our employees and the communities in which we work.

But oil is not our only interest in Kazakhstan. Hurricane is also committed to contributing to the future of the country. For example, we sponsor both professional and amateur musicians and artists. We provide recreational and educational activities for children, like Hurricane's refurbished Arai-Sunrise Youth Summer Camp. Anywhere we can, we're helping to build Kazakhstan.

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KAZAKHSTAN

FROM COOPERATION TO PARTNERSHIP

Continued from page 19

duce the risk of economic rivalry and find more profitable projects. We don't think that integration will threaten sovereignty in any way; on the contrary, sovereignty will be strengthened. In particular, the possibility of choosing partners for the transportation of hydrocarbons is an excellent index of economic independence.

We signed the first pipeline contract from Tengiz to Novorossiysk with Russia, a traditional economic and political partner of Kazakhstan. Last year we signed a gigantic contract for the construction of a pipeline from West Kazakhstan to Xinjiang Uighur Autonomous Region with China. Six more oil and gas transportation proposals are being studied.

Naturally, when choosing partners, we are ruled above all by economic considerations. But with joint projects comes spiritual rapprochement; personal contacts become closer and new suggestions for future cooperation emerge. Our motto is: "From cooperation to partnership."

After a successful privatization program, a review is underway. While foreign investment is important, how can you increase this and, at the same time, achieve a balance with domestic investment so that Kazakh companies can also benefit from the country's enormous potential?

The question of domestic investment and the encouragement of Kazakhstan business on the whole is becoming increasingly important. The number of dynamically growing companies that would like to sponsor industrial projects is increasing in Kazakhstan. There are some strong joint ventures. Nevertheless, I don't think it's right to render privileged support to domestic investors by creating favorable conditions for them. They have to compete for projects equally with foreign companies.

Recently, the Kazakhstan Investors consortium, which includes several large companies and banks, has been formed. They managed to win a 100 percent shareholding of the very big — to our measure — TuranAlemBank, which can invest in really large projects. As you can see, the process has started. The strength of domestic investors will increase with the growth of our economy. And if they beat foreign companies in tenders for projects, we will only welcome it. Besides, our companies know the market better, and we don't have any doubt that they will reinvest their profits.

How can foreign investments be directed to sectors outside the oil and gas areas?

Up until now, 30-40 percent of all foreign investment has been in the oil and gas industry. The rest has been directed to metallurgy, energy, gold extraction, transportation and communications, and construction. True, the development of our oil resources on the Caspian shelf, our onshore oil and gas fields, and the construction of pipelines will increase in-



The president signing copies of his "Strategy to the Year 2030."

vestments in the oil and gas branch, but the attractiveness of other sectors of the Kazakhstan economy will not suffer from that. Today, it is very important for us to attract investment for the development of small and medium-sized businesses. It's not only an economic need, but also a most important political task, because a strong middle class guarantees both economic stability and the strength of democratic traditions.

How can foreign investors be protected from bureaucracy and the possibility of corruption?

We know that corruption is strong where the bureaucrat is strong. A year and a half ago, I initiated the adoption of a specific law on the state protection of direct investments. In addition to the law, I issued a decree on forming a special government body — the State Investment Committee. This body is functioning as a "one-stop shop" so as to rid the potential investor of tedious and long bureaucratic procedures. The regulations are clear-cut, transparent and give no opportunity for any abuse. •



Local traditions are strong among Kazakhstan's people.

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Kazakhstan's efforts to attract foreign investment, both direct and indirect, have already paid off handsomely. But now the government is making it even easier for investors by setting up a "one-stop shop" through the State Investment Committee (SCI) to offer incentives, eliminate red tape, streamline procedures and remove anomalies in the interpretation of laws and regulations.

Direct foreign investment has accelerated since 1993, thanks in part to the country's privatization program and the restructuring of basic industries, with European, North American and Asian companies assuming the management, marketing and operational activities of vital oil and gas, manufacturing, mining, transport and utility companies. Inward flows virtually doubled from the \$640 million recorded in 1994 to an estimated \$1.2 billion last year, according to figures produced by the SCI. This year, they are forecast to rise still further, to \$1.7 billion.

International names

Names known around the world, such as IBM, Siemens, Bristol-Myers Squibb, Coca-Cola and Philip Morris, have joined a host of international oil and gas companies eager to participate in the country's future. Indirect investment has also increased rapidly, with U.S. funds such as Fidelity and Templus buying into Kazakh equity, along with specialist players such as Global Securities of Turkey, Regent Pacific of Hong Kong and Kazakhstan's own Kazkommerts Securities.

In their wake have come the stalwarts of the international banking scene. Dutch bank ABN AMRO was the first international house to acquire a full banking license in the country, working in partnership with Kazkommersbank. It was followed by Société Générale of France, which obtained a full license in January. Citibank of the United States hopes to follow suit later this year, along with ING Barings, another Dutch institution.

Three German institutions — Deutsche Bank, Dresdner Bank and Commerzbank, have set up representative offices in the commercial capital, Almaty. International investment bankers, including Merrill Lynch, Salomon Brothers, Credit Suisse First Boston, Lazard Frères, Hongkong and Shanghai Bank and BZW Barclays, are queuing up to participate in the spate of corporate Eurobonds expected to be launched this year, as well as in the privatization program. Halyk Savings Bank of Kazakhstan (HKS) held its road show last month for a \$100 million bond lead-managed by Lehman Brothers of the United States.

Middle Eastern investors are also becoming increasingly involved. Sheik Amr A. Dabbagh, the president and CEO of Saudi Arabia's Dabbagh Group, was appointed by President Nazarbayev in May, 1996 as Kazakhstan's honorary consul for the kingdom in recognition of his work to promote foreign investment in Kazakhstan. The group has been operating in the country since 1993, developing hotels, airlines, telecommunications, housing and trading activities.

There are stumbling blocks, however. The fall in world oil prices, for example, has raised doubts about some projects Kazakhstan would like to go ahead with, using funds provided by foreign investors. The SCI has already made it clear that it stands by ready to help protect investors against

such risks if necessary. SCI Chairman Oraz Jandosov, who is also the country's first deputy prime minister, has been quoted as saying that the government is considering "relaxing fiscal procedures and removing limitations on the freedom of oil company operations."

The SCI, explains Minister and Executive Director Anvar Saïdenov, is also particularly interested in ensuring that "there are procedures in law for transparent tenders." While he is doubtful that privatization "should be an objective in itself," especially if state-owned companies are profitable, he sees the involvement of the private sector as a way to "improve corporate governance in finance and in industry."

Strong legislation

The basic legislation required has already been passed: The 1994 Foreign Investment Law, which was amended in May, 1997, sets forth guarantees for investors regarding the repatriation of profits, while a law on State Support for Direct Investment, ratified last year, establishes preferential treatment for direct investors. Two of these incentives are tax incentives — including a reduction of up to 100 percent on rates applied to land, property and corporate taxes — and rights to concessions.

Foreign companies are now also free to own up to 100 percent of the equity in any venture established in the country. Infrastructure, process industries, agriculture and manufacturing and service industries in the new capital, Astana, are all on the priority list for investment incentives.

Nevertheless, SCI officials accept that much still needs to be done to overcome delays in obtaining licenses, permits and exemptions, and access to key officials. Widespread complaints about arbitrary demands for excessive tax payments also need to be addressed, as does the need to promote the country's interests abroad effectively and efficiently.

At present, the committee is concentrating on three main areas of activity, explains Doulat Kuanyshov, director of the SCI: developing up-to-date legislation in line with international norms, ensuring that legislation reflects actual practice and creating clear procedures for both bureaucrats and investors to avoid misinterpretation of the laws.

"According to legislation adopted in February 1997, we have enough power to do this," he says. Mr. Jandosov's position as first deputy prime minister and the fact that the SCI is an autonomous body reporting directly to the cabinet and the president provide further assurances of the SCI's new role.

The new generation of officials, including Mr. Jandosov, share common views about the importance of open disclosure, efficient methods of governing and common practices for all. Although many are new to their positions, they have broad experience in respected institutions such as the National Bank of Kazakhstan, the country's central bank.

Foreign investors seem to be impressed.

"The government continues to be committed to moving from basically a command to a free market economy," observes John Kormannicki, president and CEO of Huricane Hydrocarbons, a Canadian company that is developing an important onshore oil field in south central Kazakhstan. "They are on the leading edge of social and economic reform in the former Soviet Union." •

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KAZAKHSTAN

FACT AND FIGURES

Official name: Republic of Kazakhstan
 Head of state: President Nursultan Nazarbayev
 Capital: Astana
 Language: Kazakh (official); Russian widely spoken
 Population: 16.4 million
 Area: 2.7 million square kilometers
 Currency: The tenge (76.5 to the dollar)

Economic Indicators

	1996	1997	1998 (forecast)
GDP growth (percent change)	1.1	2.2	3.0
Consumer prices (percent change)	39.2	17.7	14.5
Government budget deficit (percent of GDP)	2.5	3.4	5.5
Trade balance (U.S.\$ billions)	-0.3	-0.5	1.2
Exports (U.S.\$ billions)	6.3	6.8	7.0
Foreign direct investment (net) (U.S.\$ billions)	1.1	1.2	1.7

Source: The European Bank for Reconstruction and Development, 1998

CAPITAL MARKETS: BLUE CHIPS AND IPOs

Although the Kazakh Stock Exchange, which began operations last September, is still in its infancy, the country's capital markets are set to develop rapidly within the next two years. The government's commitment to privatizing its holdings in major industries through public issues is a major factor promoting future expansion, as is the establishment of private pension funds.

The legal framework for the creation of a securities market was completed last year and is based on "Western standards of disclosure," reports Gregory Vojack of Bracewell & Patterson, the U.S. law firm that has won a contract from the U.S. Agency for International Development (USAID) to help draft the required legislation.

Three separate laws establish an independent regulator — the National Securities Commission (NSC) — and introduce international concepts such as the principal of nominal shareholdings and the issuance of securities in electronic form. Special provisions to facilitate the entry of institutional investors have already attracted interest from fund managers in Europe, the Middle East and North America. To encourage foreign investors, the government has eliminated taxes on their securities transactions and capital gains.

Four trading tiers have been designated for the exchange. A "blue chip" segment is reserved for companies that have been in existence for at least three years, have 500 shareholders or more, two years of audited

accounts completed in accordance with international auditing standards and a minimum capital of \$1 million. A second tier has less stringent requirements, while others provide for a pre-listing board and an over-the-counter market.

At present, only one local concern, Kazkommerbank, is traded in the top tier, but the chairman of the NSC, Aben Bekasov, expects "that there will be about five enterprises, primarily banks" in the top "A" category and "about 10 enterprises" in the second, or "B" category by the end of the year.

Confirmation that the government intends to proceed with the privatization of its minority holdings in five blue chip oil and industrial firms this year has sparked renewed interest in the mar-

ket after fears that the program might be delayed. Agreements were signed by the Ministry of Finance in mid-May with several financial houses to manage the floatations.

Credit Suisse First Boston (CSFB) of the United States, together with Greenwich Capital Management of the United Kingdom and the local Halyk Savings Bank, was selected for the sale of 5 percent to 7 percent of the government's 30 percent holding in Mangistauumnaigas, the country's largest oil and gas producer.

A mandate is also expected to be issued for the management of a public offering of shares in Kazaktelecom in which the state holds 50 percent and institutional shareholders 40 percent. Bankers in Almaty say the Dutch bank ABN AMRO is expected to receive a contract to arrange the sale once the restructuring of KT's equity is confirmed by the Ministry of Finance.

Additional blue chip sales are planned for next year, once the required audits are completed. "They may include 10 to 12 companies that will circulate in the secondary market," says Minister of Finance Saat Mynbaev. Around 10 percent of shares in the state-owned company KazakOil may also be sold, he adds.

The pension reforms, which came into effect in January, are also expected to increase trading on the exchange, according to NSC officials. A system was set up whereby 10 percent of the 25 percent that employers are required to deduct from employees' wages can be directed to either state or non-state funds. Although at least 50 percent of the non-state funds must be invested in state securities, up to 20 percent can be directed toward the top tier of companies registered on the exchange.

Umyt Shayakmetova, a financial analyst at ABN AMRO, which has received a license to set up an asset management company to invest the funds, reports that, according to some estimates, the non-state funds should be able to attract some \$500 million during the next three years. By the end of March, however, the non-state funds had attracted only 1 billion tenge (\$13.2 million), while their state counterparts had accumulated 2.1 billion tenge, according to NSC figures. ■

STABILITY AND GROWTH: BUILDING A PLACE IN THE SUN

Continued from page 19
 country and its economic perspectives allow us to make bold attempts to search for our place in the sun."

Strong indicators

Central to this strategy is the role played by the National Bank of Kazakhstan, which has gained international respect for its stabilization of the new national currency and its tight monetary policy as well as for its role in restructuring and privatizing state industries and the banking system. Inflation has plummeted from a rate of more than 1,000 percent in 1994 to 11.2 percent last year. This year, the figure is forecast to fall still further, to about 9.5 percent, according to Kadyrzhlan Damitov, the governor of the bank. "We think this is achievable, and, in line with the government's program, we expect it to fall to between 5 and 6 percent in the next three years," he adds.

Real economic growth, which began with a 1.1 percent rise in 1996, doubled last year, according to official estimates, and would have been considerably higher were it not for the continued decline in the agricultural sector. This year, it is expected to reach 3 percent.

"Services are the fastest growing sector, and capital investment rose by 20 percent," Mr. Damitov notes. "The private sector now accounts for 70 percent of GDP."

According to the State Investment Committee, foreign direct investment is also a major factor in the resumption of growth. So far, the cumulative total amounts to almost \$4 billion; by early this year, it passed the critical threshold of 5 percent of GDP. The Ministry of Finance, which is re-

sponsible for government revenues, is also adhering to strict norms — in line with IMF guidelines — concerning fiscal policy. Despite a fall in the prices Kazakhstan receives for important commodity exports such as coal, wool and copper and estimates that revenues could decline by some \$150 million this year due to the fall in world oil prices alone, the budget deficit is expected to amount to no more than 5.5 percent of GDP.

Proceeds from the privatization program will help: they are expected to amount to 30 billion tenge (\$395 million) from sales this year, reports Minister of Finance Saat Mynbaev. Another 15 billion tenge is due to be received from previous disposals.

Tax collection is also improving, despite the lack of access to computers, notes Jamat Erdesova, vice minister, Ministry of Finance. "We estimate modestly that 30 percent of GDP is produced in the parallel market, where mainly corporate tax is not collected." Revisions of the tax code and reform of the civil service has helped, she adds.

The economy's improved performance is now being recognized internationally. Fitch IBCA raised Kazakhstan's long-term foreign currency rating to BB in January, citing

two years of GDP growth and a 12 percent rise in oil production last year. As senior officials from Kazkommerbank have noted, the move was especially remarkable given the downgrading of Russia and some of the Asian economies in the second half of last year. In November 1996, Kazakhstan became the second member of the CIS, after Russia, to receive an international rating.

Long-term prospects
 The country is also one of only three former Soviet republics to have successfully borrowed on global capital markets. In December 1996, the government raised a sovereign three-year \$200 million Eurobond, which set a benchmark for its notes at 350 basis points above comparable U.S. Treasury paper, a respectable rate for an emerging market economy.

In October 1997, the country placed its second Eurobond offering of \$350 million with a spread of 245 basis points over U.S. Treasury bills. Plans are now under way to raise a third sovereign Eurobond this year, Mr. Mynbaev confirms. The date will be determined "by our success in pension reform and in privatization," he adds.

In the longer term, Kazakhstan can also look forward to the prospect of vastly increased earnings from its oil and gas exports. Efforts to resolve territorial disputes in the oil-rich waters of the northern Caspian Sea are making progress with Russian President Boris Yeltsin due to sign a groundbreaking agreement with Kazakhstan in Astana in July.

"We see no major problem in the signing," said First Deputy Foreign Minister Yerlan Idrisov in late April after the meeting was initially postponed. The problems yet to be resolved, he adds, "are mainly procedural." ■



Orz Jandosov, first deputy prime minister and Chairman, State Investment Committee.



Finance Minister Saat Mynbaev

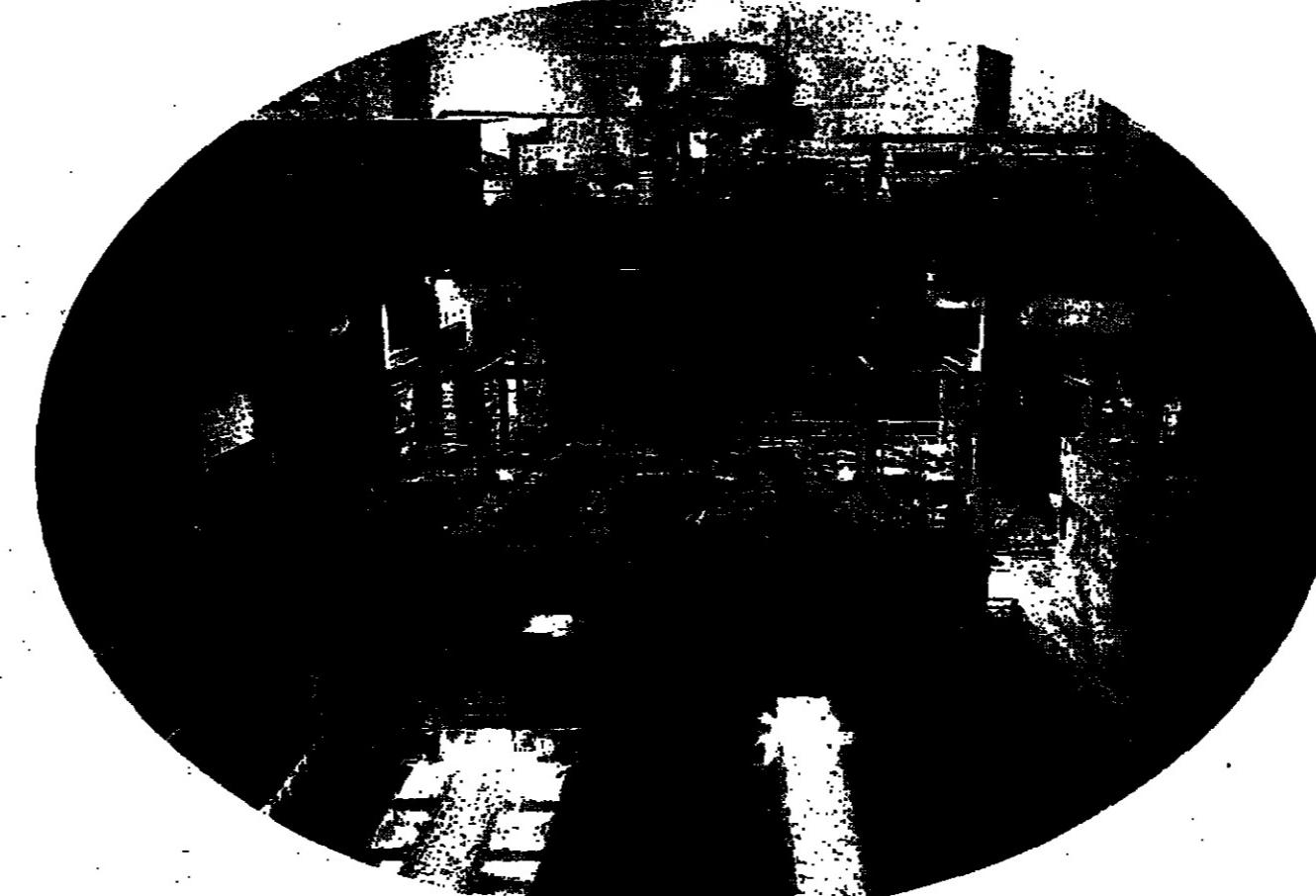
Gregory Kieze, the firm's director of international business development in Istanbul.

Deutsche Bank is also expected to become a major player through a company it is setting up, Deutsche Securities Kazakhstan, to be headed by Grigori Marchenko, the former head of the NSC. "We are discussing 20 projects for initial public offerings [IPOs], pre-IPOs and mergers and acquisitions," he says.

The pension reforms, which came into effect in January, are also expected to increase trading on the exchange, according to NSC officials. A system was set up whereby 10 percent of the 25 percent that employers are required to deduct from employees' wages can be directed to either state or non-state funds. Although at least 50 percent of the non-state funds must be invested in state securities, up to 20 percent can be directed toward the top tier of companies registered on the exchange.

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By the end of March, however, the non-state funds had attracted only 1 billion tenge (\$13.2 million), while their state counterparts had accumulated 2.1 billion tenge, according to NSC figures. ■



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*Source: Metal Bulletin Journals 1997.

SPONSORED SECTION

KAZAKHSTAN**HIGH TECH TELECOMS: RINGING IN THE NEW**

The telecommunications sector in Kazakhstan is still recovering from the Soviet era, but substantial progress is expected this year. The national operator, Kazakhtelecom (KKT), is being privatized, while a number of other operators are expanding their satellite-based systems to provide voice, data, e-mail and Internet access. A new fiber-optic cable linking Kazakhstan to the Trans-Asian-European (TAE) line is also due to begin operations.

Only about 12 of every 100 people in Kazakhstan have a telephone, compared to an average of 17 in Russia and between 25 and 30 in the Baltic states. The country's low population density — about six people per square mile — has often meant that services are only available in the major cities and industrial centers, while the cost of equipment and services is well above those of Western Europe or the United States.

Although Kazakhtelecom has the capacity to operate 2.4 million subscriber lines, only 1.9 million are active. The network of domestic and international exchanges, microwave relay lines, satellite earth stations and TV and radio transmitters inherited from the former Soviet network is out of date, and most of the equipment is incompatible with Western technology. Of the 45.5 million kilometers of trunk lines owned by Kazakhtelecom, only 5.6 million kilometers are transmitted digitally. Similarly, only 340,000 of the subscriber lines, about 14 percent, are digital.

KKT is planning to issue a series of tenders this year to modernize its equipment. "The objective is to create an integral digital network combining all of KKT's divisions and services," reports a spokesperson at Kazkommertsbank, the company's bank. The cost is expected to amount to more than \$1 billion. Alcatel of France is providing technical advice and is expected to supply some of the equipment.

Part of this will be financed internally, thanks to a dramatic rise in the company's revenues as the Kazakh economy has begun to recover from the transition to an independent state.

Other funds are expected to come from the sale of equity to a strategic investor. While the South Korean company Daewoo had originally won the right to buy a 40 percent share, its own economic troubles at home have led to its withdrawal from KKT. U.S. and Kazakhstani banks are reportedly ready to take up the stake.

Meanwhile, tests are being carried out on the company's new international fiber-optic line, which covers 2,000 kilometers (1,240 miles) in Kazakhstan and connects with the 27,000-kilometer TAE running from Frankfurt to Shanghai.

The work of laying the cable through Southern Kazakhstan was completed in December at a cost of some \$6 million. Work on laying another fiber-optic cable to connect the new capital of Astana and Karaganda with Almaty is expected to start this year. When completed, it will link the Kazakhstani part of the TAE with Russia's Trans-Siberian network through an automatic exchange in Alekseevka, 120 kilometers north of Astana.

In the private sector, Norsat, a joint venture between Lucent Technologies of the United States and a local company, Kazinformtelecom, provides voice, data, video and Internet services throughout Kazakhstan via 11 nodes connected to the Intelsat 703 satellite.

The company is currently involved in installing state-of-the-art communications systems in many of the country's military and industrial sites under a grant from the U.S. government. Voice and voice-mail are provided to Europe, the Americas, Africa, the Middle East, the Far East, Australia and New Zealand at costs ranging from \$1.80 to \$3.45 per minute.

Astel (Astra-Sprint), a joint partnership of Kazakhtelecom and Data Pack of the United Kingdom, provides a full range of telecommunications services to banks, corporations, government ministries and the country's mass media through its access to the International Global One network. Tariffs are competitive, giving it a leading position in the market.

Sary-Arka, a joint stock company, also provides satellite communications, in partnership with IBM, MCI and AT&T of the United States, France Telecom, Deutsche Telekom, BT of the United Kingdom, Australia's Telstra, KDD and ITU of Japan and Dakom of Korea, as well as other companies in the United Arab Emirates, the Czech Republic, Sweden, China, Italy, Turkey and Greece have signed agreements with KKT to provide direct international dialing via satellite.

Cellular services are available to 16,000 subscribers in 13 cities, but current demand is estimated to total 60,000. At present, there is no Global System for Mobile Communication (GSM), though a call for tenders has just been issued. Beset, the sole licensed provider, uses the analog AMPS.

Four paging systems, using either ER-MES or POCSAG standards, exist in the commercial center of Almaty, serving a total of 7,000 subscribers. Again, demand far outweighs capacity. Kazkommertsbank, which is handling the restructuring of KKT, estimates that another 50,000 potential subscribers are waiting for such services.

**AGRICULTURE IN THE REGION'S BREADBASKET**

After years of post-Soviet decline, the Kazakhstan agricultural sector is starting to improve, along with the prospects for new agro-industries. While the country's extensive oil and gas reserves and metal and mineral resources have grabbed the headlines, its extensive farming belts in the north, south and eastern areas account for almost 30 percent of total gross domestic product.

With more than 40 percent of the population dependent on agriculture, fishing and animal husbandry for a living, reviving the sector is vitally important to ensuring basic living standards and state revenues.

This year, the government is planning to invest some \$210 million in providing

loans and credits to farmers, to be used for the creation of new storage facilities and the upgrading of equipment, distribution and marketing. Another \$55 million is being lent by international aid agencies to help restore irrigation facilities in the south.

Despite the chaotic conditions of the past few years, during which output has fallen dramatically due to the lack of fuel and electricity, and a shortage of financing, Kazakhstan remains one of the region's leading producers of grain. In 1997, the harvest produced 12.3 million tons, up from 11.5 million tons in 1996 and 9.5 million tons in 1995. However, given favorable conditions, output could rise substantially, to 30 million tons a year, according to estimates produced early this year by Kazkommertsbank.

Much of this would be high-quality wheat, similar to varieties exported from Canada. The state-owned Food Corporation is now seeking to find new export markets to replace the sector's former dependence on the Soviet Union. Iran is seen as a potentially huge market, given its role as the world's number one importer of wheat. In March, Kazakhstan sent a test shipment of 5,000 tons to the Iranian port of Bandar Enzeli, 80 kilometers away. Transport costs, which currently amount to nearly \$50 a ton, would be cut to just \$20 a ton, according to government estimates.

China is another potentially huge market, as are Saudi Arabia and the Gulf states. In the meantime, however, Kazakhstan's neighboring countries will remain important buyers. In 1997, Russia bought 5.5 million tons of grain and Turkmenistan 500,000 tons. Another 1.2 million tons went to the Ukraine.

Another promising area is the south, where cotton, fruits, vegetables, tobacco and rice are cultivated mainly on irrigated land. Kazkommertsbank is investing some \$25 million to help develop cotton production in the area, according to officials of the South Kazakhstan Oblast. Plans are also under way to develop a cotton exchange.

The development of new freezing units and marketing facilities is also helping to revive the country's important fishing sector. Resources include sturgeon, perch, carp, roach and shellfish from the Caspian Sea as well as 50 other varieties found in Kazakhstan's rivers.

A state-owned company, Atyraubalyk, has opened a new retail complex in the northern Caspian port of Atyrau. It features extensive shopping facilities, restaurants and leisure facilities to supplement the firm's domestic sales of fresh and frozen fish.

In addition, Atyraubalyk's exports of sturgeon fillet to Germany have increased dramatically, as have its exports of caviar and smoked, frozen and dried fish to countries such as France, Switzerland and Spain.

Profits in 1997 were expected to be more than \$50 million.

With its vast steppe lands, mountain valleys and foothills, Kazakhstan has traditionally supported extensive

herds of cows, sheep, camels and goats.

Horses, pigs and poultry are also important, but, as in the case of grain, the severe conditions of the past few years have led to a decline both in the number of animals and in the production of related products such as milk and wool.

Government efforts to revive animal husbandry and to introduce new food processing facilities have been hampered by the need to restructure collective farms inherited from the Soviet era and by the lack of finance.

Kazkommertsbank is

hopeful that private investors can be convinced of the country's potential in both agriculture and food processing. It has identified 400 projects suitable for consideration by both foreign and local investors. They include the construction of a \$50 million plant to produce baby milk powder in Volodarskoe,

a \$40 million plant to produce citric acid in Kirovsky

and a \$17.8 million meat processing plant in Kostanai.

The bank is also seeking

investors for a new \$25 million flour mill in Taldykorgan, near the capital of Almaty in the southeast. It will be capable of producing 150 tons a day. At present, flour consumed in the area must be transported from other parts of the country or from abroad at considerable cost to consumers.

Other feasible projects recommended by the bank include a \$25 million factory in Semipalatinsk to produce

packaging materials, an \$18 million retail and food

marketing complex in Atyrau, a \$10 million food processing plant in Chimkent, a \$9.5 million factory in Almaty to produce tin sheet and cans, an \$8 million brewery in Pavlodar

and a \$2.4 million refrigerated fish warehouse in Oblypotrebbaza, near Taldykorgan. ●

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SUMMIT UNITES TOP BUSINESS AND POLITICAL LEADERS

Kazakhstan's remarkable achievements since independence just seven years ago include political stability, a return to economic growth and the establishment of a business environment highly favorable to foreign investment.

Well known as a source of immense natural resources, Kazakhstan also has investment opportunities in a wide range of sectors, including agriculture, metals, food processing, consumer goods, infrastructure and banking.

To discuss these growing opportunities, top business leaders and government officials will gather in Almaty on June 4-5 for the Kazakhstan Investment Summit, convened by the International Herald Tribune.

This high-level gathering, chaired by Nursultan Nazarbayev, president of the Republic of Kazakhstan, and supported by the State Investment Committee, will allow international investors to enter into discussions with top government, business and financial leaders in Kazakhstan. The summit will examine the country's enormous investment potential, as well as the issues that need to be resolved to encourage further investment.

President Nazarbayev will give the keynote address. Other speakers include high-ranking government and business leaders and ministers and leaders of the Kazakhstan and international business communities.

Topics to be discussed include the oil and gas industry, sources of finance for investment, and the possibilities for regional cooperation and economic integration in the Commonwealth of Independent States (CIS), which represents a potential market of 55 million people. Other subjects on the agenda are the role of the State Investment Committee in building confidence and attracting investment to achieve Kazakhstan's 2030 plan, investment in transport, communications and pipeline links, and capital markets. The program also includes in-depth, sector-specific discussion sessions centering on manufacturing, agriculture, food-processing, infrastructure, oil and gas, small and medium-sized enterprises, minerals and mining.

Information packs on investment opportunities in each region of the country will be available to participants.

REPUBLIC OF KAZAKHSTAN**MINISTRY OF TRANSPORT & COMMUNICATIONS****DEPARTMENTS FOR POST & TELECOMMUNICATIONS****INITIATION FOR TENDER****ON USE OF RADIO FREQUENCY SPECTRUM****TO CONSTRUCT AND OPERATE****GSM CELLULAR COMMUNICATION IN KAZAKHSTAN**

The Government of Kazakhstan represented by the Department for Post & Telecommunications under the Ministry of Transport & Communications, invites sealed bids from eligible contractors for construction of GSM standard cellular communication networks in the Republic of Kazakhstan.

Initial evaluation price of the auction of the object is set out as US \$16,500,000 (sixteen million five hundred thousand dollars).

The invitation to tender will be carried out in two stages:

1. Preparation to the tender within the framework of auction and determination of the participants subject to the main technical requirements specified by the Republic of Kazakhstan Ministry of Transport & Communications (Resolution № 100, 22 May 1998).

2. The invitation to tender will be held in the form of an auction.

The tender date for bids is Friday, 31 July, 1998 at 4.00 p.m. (Kazakhstan local time). The deadline for submission of all applications is Tuesday, 28 July, 1998 at 4.00 p.m. (Kazakhstan local time).

For further information regarding the tender process, please apply to the:

Department for Post & Telecommunications, Ministry of Transport & Communications, Room 312, 49 Abai Avenue, Astana 470000, Republic of Kazakhstan.

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with the approval of President Nursultan Nazarbayev, the institute is a leader in its fields throughout Central Asia.

Masters' degrees are offered in three areas: business administration, public administration and economics. All courses are taught in English, reflecting the institute's concern with providing its students with a widely spoken language. More than 500 students attend classes at the institute, and some 200 of them graduate each year.

A part-time MBA program and specialized training courses are also available in the evening for professionals.

In line with the country's immediate needs, the university now includes the Kazakhstan International Institute of Banking and the Management Training Center for Oil, Gas and Mineral Companies. This year, the institute is also planning to begin offering an Executive MBA in conjunction with the London Business School and HEC in Paris. ●

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KAZAKHSTAN

Kazakhstan's vast resources of minerals and metals are attracting investors from around the world.

THE MINING SECTOR: BACK TO PROFIT

Kazakhstan has the world's largest reserves of zinc, wolfram, molybdenum and barite, according to Kazkommertsbank officials in Almaty. It also possesses the world's third largest reserves of copper and manganese and has rich deposits of gold and silver.

During the Soviet era, Kazakhstan accounted for nearly a fifth of the USSR's output of coal and half its reserves of lead, tungsten, copper and zinc. Other significant deposits of iron, titanium, magnesium, chromium, bauxite, aluminum oxide and phosphates are mined and processed in the country.

During the first five years of independence, production fell dramatically because Kazakhstan's huge mines, smelters and manufacturing plants suffered from a lack of fuel, finance, spare parts and technology, as well as the loss of their traditional markets in the former Soviet Union.

The restructuring of many state-owned companies in the sector and the privatization of others has now led to a dramatic turnaround: In 1997, the industrial output of ferrous metallurgy rose 20.5 percent, compared with a fall in 1996 of 25.2 percent, according to official Kazakh statistics. For non-ferrous products, the increase amounted to 15.5 percent last year, compared with a rise in 1996 of 10.7 percent.

Foreign investors include the Japanese Chromium Corporation, which purchased a 55.2 percent stake in the state concern, Kazkhrom, in August 1996. Britain's White Swan has invested more than \$540 million in aluminum oxide production in Kazakhstan since 1995, mainly through Kazakhstan Alumini (Kazak Aluminum), one of the country's eight largest companies, in which it has a shareholding of just under 56.5 percent.

Last December, the London-stock-exchange-registered company Bakyrchik and the Toronto-registered Indochina Goldfields became co-owners of the Bakyrchik gold reserves, one of the largest undeveloped mines in the world.

Santa Fe Pacific Gold, a subsidiary of Newmont Mining of the United States, is also confident about the sector's promise. Last year, it raised its shareholding in the Sharalyin gold exploration project in northeastern Kazakhstan from 50 percent to 100 percent. Investors are now being sought to tap still other gold reserves, including the 14 million ounces of reserves at Vasilkovskoye, the State Investment Committee

revealed at the annual meeting of the European Bank for Reconstruction and Development (EBRD) held in Kiev in mid-May.

Samsung of Korea, through its German subsidiary Samsung Deutschland, now owns 40 percent of Zhelkazgansvetmet, a copper producer whose state shares are to be privatized in the coming year, following the restructuring and consolidation of Kazakhstan's copper mining and manufacturing plants into a new holding company, Kazmns, which Samsung is marketing as the Kazakhstan Copper Corporation. Capacity at its plants in Zhezkazgan and Balkhash totals 400,000 metric tons of copper, as well as some gold, silver, zinc and lead.

Timur Issatayev, ING Barings representative in Almaty, said in mid-May that Samsung, unlike other Korean investors, has plans to increase its stake still further. His bank, together with Crédit Lyonnais, has successfully raised a \$120 million syndicated credit to help the company invest in new equipment and to diversify its markets.

One of the biggest success stories is undoubtedly the Ispart-Karmet works, a former Soviet complex in Temirtau, near Karaganda, which has a capacity of 6 million tons of liquid steel. Ispan International, part of the London-based LNM Group, owned by Indian-born Lakshmi Mittal, has managed to raise output from just 2 million tons in 1995 to 3.8 million tons last year, following its purchase of the facility in November, 1995. By the year 2000, the figure is forecast to rise to 4.5 million tons, according to company officials.

New export markets have been found in China and other Asian countries to replace those in Russia.

In December, both the EBRD and the Washington-based International Finance Corporation (IFC) recognized the company's achievements by granting it loans worth \$450 million to help streamline production, produce higher value-added products and lower costs, as well as to ensure adherence to modern environmental standards.

The investment is likely to make the complex one of the world's pre-eminent steel producers, especially as its products are expected to include the thousands of kilometers of steel pipeline that will be laid in the next few years to export Kazakhstan's oil and gas. •

MODERNIZING VITAL TRANSPORT LINKS

Getting Kazakhstan's oil and gas to Western export terminals through nonexistent pipelines is not the country's only transport problem. Many foreign and local businesspeople would argue that the development of new road and rail links, as well as air transport facilities, is equally important. Upgrading the national electricity grid and building new power stations are also urgent tasks, but, as elsewhere in the economy, finance remains the main problem.

"Without the development of transport in accordance with international standards and technological progress, it is impossible for Kazakhstan to join the market economy," says one leading local banker. At present, the country, which in terms of land area is the ninth largest in the world, has a total of just 13,500 kilometers (8,370 miles) of tared road. The railway network, which accounts for 86 percent of the total freight carried in the country, covers 106,000 kilometers, but it is sorely in need of modernization and expansion to serve the country's industrial and commercial needs.

In the case of roads, there are no adequate through routes to Kazakhstan's potential markets in China, India, Pakistan, Iran and Turkey.

While the ideal scenario would include immediate work on the construction of a "Trans-Kazakhstan Highway" linking Europe with Asia, the lack of funds is likely to mean that such a project will be dependent on private investment — both local and foreign.

Foreign ventures in the country eager to resolve transport bottlenecks in the main oil and gas and industrial areas are moving ahead on their own, with the government's encouragement.

British Gas, Agip, Texaco and the Russian firm Lukoil are investing in a \$4 million road program in West Kazakhstan; where they are developing the country's huge oil and gas reserves. Elsewhere, as much as \$300 million to \$400 million is needed just to build and restore vital bridges and to provide im-

portant cargo ferries, according to estimates by Almaty-based Kazkommertsbank. Private investors are also being sought to set up road haulage companies, public transport facilities in urban areas, and automobile and truck repair workshops.

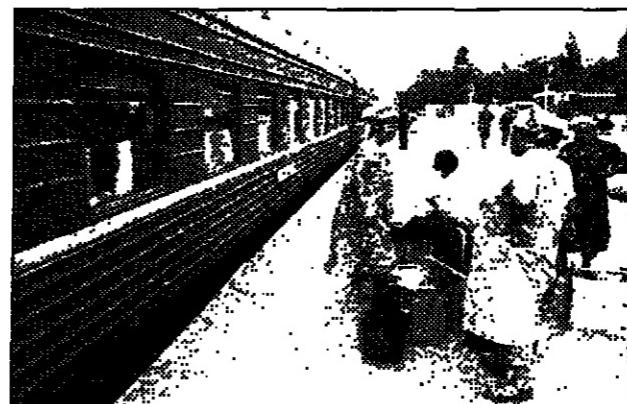
Japanese investors, including Kawasaki Steel, are working with the government, international donors and Almaty Railways to upgrade and expand existing railway links. While Almaty has already carried out modernization of its lines and rolling stock in the governorates of Zhambyl and South Kazakhstan, new equipment and rail track maintenance is vitally needed in the southeast.

Altogether, the government plans to build 650 kilometers of new track to the major cities and to electrify some 800 kilometers of existing lines. Some of these projects are to be carried out by the state railway company, Kazakhstan Temir Dzoly.

Air Kazakhstan currently operates domestic services to Astana and other regional capitals and is seeking to expand its international routes, but it has had to suspend some operations due to a lack of finance.

Astanair, a privately owned company set up last December by the Swiss construction company Babcock, flies BAC-111s to Astana, Chimkent and Kyzyl-Orda and is planning new routes to Aktubinsk, Ust-Kamenogorsk and Uralsk. Other local airlines provide services to Astana using aging Russian-made Tupelovs.

KLM, the Dutch airline, provides direct services between Almaty and Amsterdam, with onward connections to the airline's international network in Europe, Asia, Africa and the Americas. Other services are provided by Lufthansa, Austrian Airlines and British Airways. Work on expanding and modernizing the coun-



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KAZAKHSTAN

PIPELINES: GETTING THE GOODS TO MARKET

Pipelines will allow Kazakhstan to develop its potential as a leading exporter of hydrocarbons.

While the government is struggling at home to revive an antiquated network of domestic pipelines, the international focus remains firmly fixed on plans to link Kazakhstan's huge oil and gas reserves with export terminals in the West and in Asia. Global strategic interests are at stake, and they are delaying landlocked Kazakhstan's own efforts to develop its potential role as one of the world's major exporters of hydrocarbons.

At present, at least six major routes have been pro-

which would cover some 1,920 kilometers (1,190 miles) and cost \$3 billion.

The route's advantage is that it would bypass the over-crowded tanker routes passing through the Black Sea, the Bosphorus and the Dardanelles Straits. In addition, it would reduce transit costs for Kazakh oil destined for European markets and the Eastern Mediterranean states.

Growing markets in Africa and the Indian sub-continent could also be supplied from Ceyhan via tankers passing through the

despite signs of moderation in the Iranian government.

Tanker transport

At present, Kazakh oil is shipped via tanker from the eastern Caspian port of Aktau to a terminal in the south at Enzeli in Iran. From there, it is sent to refineries in Tehran, Tabriz, Araq and Isfahan.

Under "swap" arrangements with Iran, an equivalent amount of Iranian oil is then sent from the country's ports in the Gulf to destinations in Europe and Asia. These arrangements are vulnerable both to political concerns and to Iran's policy of giving priority to its own exports.

Saudi Arabia's Dabbagh Group, which is involved in the tanker shipments, has drafted detailed plans to upgrade the existing sea terminals. From Iran, Kazakh oil and gas could eventually also be transported overland via pipeline east to Turkey and the Mediterranean via a project proposed by Shell and other international oil companies. Another alternative has been proposed by the U.S. oil company Amoco. This would connect Kazakhstan with access to a huge oil-consuming market that is expected to grow rapidly in the 21st century. The pipeline also has the advantage that the Chinese may be willing to help pay for at least part of it, given its strategic importance to the Chinese economy. The Chinese National Petroleum Company, which bought 60 percent of the shares in Kazakhstan's Aktubinskneft oil company a year ago, has already signed an agreement with the Kazakhstan government to evaluate the commercial feasibility of the project. Foreign investors in Kazakhstan are now holding talks with Chinese officials on oil purchase agreements that could help to ensure the line's profitability.

High volume

Meanwhile, the project most likely to get off the ground in the next year is a \$2 billion pipeline linking Kazakhstan's huge Tengiz field with the Russian port of Novorossiysk on the Black Sea.

The Caspian Pipeline Con-

sortium, which includes Chevron and Mobil of the United States, Lukoil and Rosneft of Russia, BG (British Gas), Agip of Italy and the government of Oman as well as the state company, KazakhOil, signed an agreement to build the 1,500-kilometer link last year, but delays over the shareholding and transit rights have held up the start of construction.

A second stage would connect Chimkent with other Kazakh oil fields and refineries in Atyrbinsk, Tengiz and Uzen. The total cost is estimated to be some \$9 billion, although Chinese officials have been quoted as saying that the first stage could be completed for less than \$4 billion.

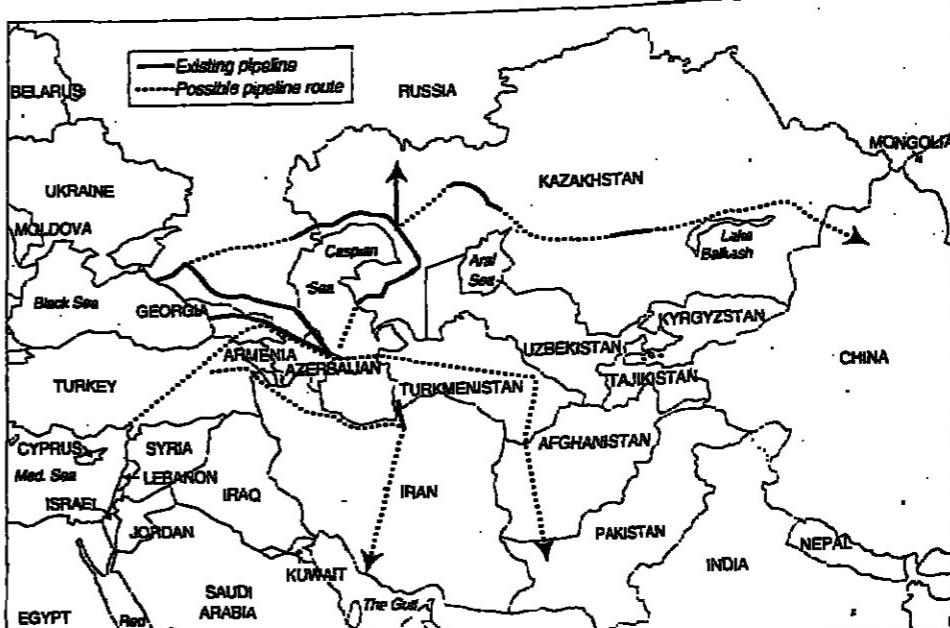
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The Caspian Pipeline Con-



the construction of additional pipelines that provide more direct access to the world's main consuming areas will also be necessary.

Within Kazakhstan itself, efforts are proceeding to attract private and foreign investment for the expansion and modernization of existing oil and gas lines, most of which were designed to serve markets in Russia, the Transcaucasian states. New lines are needed to bring gas from

the huge Karachaganak field in the extreme northwest of the country, near the border with Russia. Under the terms of a production-sharing agreement signed last year with the government, an international consortium consisting of Texaco of the United States, BG (British Gas), Agip of Italy and Lukoil of Russia will have the rights to develop the field for the next 40 years in return for a promise to invest \$6 billion during the period.

International surveys indicate that the total figure for reserves could rise as high as 13 trillion cubic meters once exploration is complete. A Kazakh official said at a conference in London at the end of April.

Two-fifths of these reserves are located in the giant Karachaganak reservoir in

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within the next few years,

especially if the link between

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Although output reached

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lion cubic meters in 1996 and

an impressive 8.1 billion cu-

bic meters last year, a 24.4

percent increase over the

1996 figure. •

NATURAL GAS: MAXIMUM POTENTIAL

In addition to oil, Kazakhstan has huge reserves of gas and condensates, which are expected to make it one of the world's leading producers in the early part of the next century. Current reserves of natural gas are estimated to total some 2 trillion cubic meters, enough to allow an annual production of about 35 billion cubic meters a year.

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NEXT GOALS

KAZAKHSTAN

NEXT GOAL: DOUBLING OIL PRODUCTION

The country's proven reserves total 15.5 billion barrels, but this figure could double in the next decade.

Kazakhstan, the second largest oil producer in the former Soviet Union, is now expected to become one of the world's leading producers early in the next century. The government's liberal free market policies and its readiness to grant licenses to foreign firms for exploration and production have already attracted both the major international oil companies and smaller concerns willing to provide finance, technology and advanced management and marketing systems.

The country's proven reserves total 15.5 billion barrels, but this figure could double in the next decade once surveys of the offshore areas in the Caspian Sea are complete.

Production, which totaled 25.7 million tons in 1997, is expected to rise to some 80 million tons a year by 2005 and possibly as much as 120 million tons by 2020.

International consortia
Almost half of current output comes from three onshore fields near the Caspian: Tengiz, one of the 10 largest oil fields in the world; Karachaganak; and Uzen.

Tengiz is being developed by a joint venture, Tengizchevroil, consisting of the Kazakh government, Chevron and Mobil of the United States, and Lukoil of Russia. Last year, the venture produced almost 30 percent of the country's entire output, compared with just 5 percent when operations began in 1993, despite the necessity to transport the crude by barge and rail pending the completion of an export pipeline to the Black Sea.

The project is expected to attract some \$40 billion in investments during the next 40 years. Already it has led to the construction of a \$100 million plant to remove sulfur compounds from the oil.

In November 1996, the

produced at Tengiz as well as other investments designed to improve water, energy, medical and housing facilities in Western Kazakhstan.

About \$6 billion is being invested in the Karachaganak oil field, which also contains about 40 percent of Kazakhstan's gas reserves. A consortium consisting of Texaco of the United States, BG (British Gas), Agip of Italy and Lukoil is developing the field, which is expected to produce some 12 million tons of oil and gas condensates by the year 2002.

In August, the Chinese National Petroleum Corporation (CNPC) pledged to invest up to \$1 billion in return for rights to develop the Uzen field, which is estimated to contain some 1.5 billion barrels of oil. Earlier in the year, it agreed to develop three fields in the Atyubinsk region in exchange for a 60 percent interest in Atyubinskmuinigas, the Kazakh company developing the fields.

Joint ventures

Still other deals signed last year included the purchase of a 60 percent stake in the country's largest oil producer, Mangistaumuinigas, by the Indonesian concern, Central Asia Petroleum. The Turkish state-owned company TPAO signed a contract worth \$750 million with the government to explore reserves in the Caspian Sea.

This is to be followed by a 25-year production agreement for a joint venture consisting of Amoco of the United States and TPAO. An extensive survey of the Caspian has already been carried out by a consortium consisting of Royal Dutch/Shell, Mobil, Agip, BG, Total of France, BP (British Petroleum) and Statoil of Norway.

In November 1996, the



Kazakhstan is expected to be one of the world's leading oil producers early in the next century.

Canadian company Hurricane Hydrocarbons purchased an 89.5 percent stake in the state-owned production company Yuzhneftegaz, giving it assets of some 390 million barrels of proven and probable oil reserves in the Kumkol field near Kyzylorda in south central Kazakhstan.

Unlike those in the Caspian, the reserves are "shallow, sweet and without sulfur," says John Komarnicki, Hurricane's Calgary-based president and CEO.

Work is also proceeding on plans to upgrade the country's three main refineries at Chimkent, Pavlodar and Atyrau. Output has declined since independence, and efforts are being made to attract foreign and private investment to provide new pipelines and transport links to the sites as well as modern equipment and management.

In addition, a new state-owned company, KazakhOil, has been established to represent the country in future negotiations on exploration and production. It is reported to be in the process of taking over the government's interests in 18 joint ventures, including its stake in Tengizchevroil and 90 percent of the shares of Kazakhstan-

caspishef, the joint stock company set up to exploit the Caspian reserves.

Clear-cut policies
Earlier this year, the government announced that it was reviewing the way it awards oil and gas licenses, although officials have stressed that this does not mean any change in the overall policy of welcoming foreign and private investment.

"There is a need to develop clear-cut policies and procedures," says Doulat Kuanyshov, director of the State Investment Committee. "Many of the licenses that were given went to smaller companies looking for foreign partners. Some are not honoring their commitments."

"Sometimes people lose their licenses because of a lack of performance," says Mr. Komarnicki. "Our philosophy is that we go in and try to do a deal that is good for both parties. We have a high profile in terms of jobs, the level of our salaries and the economic stimulation of the region. We make an impact."

Companies that honor their commitments, he says, can be confident of receiving a good response from the government.

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KAZAKHSTAN



Astana, the new capital city, combines attractive urban design and modern infrastructure.

NEW CAPITAL IS SYMBOL OF NEW ECONOMY

Less than seven years after independence, Kazakhstan is preparing to formally launch its new capital city, Astana. Situated in the geographical center of the country, it will combine the best of architecture and urban design with a modern infrastructure linking it to Kazakhstan's major industrial and agricultural regions.

The move, announced by presidential decree in September 1995, has necessitated an intense round of building and construction work to transform a provincial city of 300,000 people into a suitable location for the government, foreign embassies, international banks and corporations, and the hundreds of thousands of Kazakhs who are expected to live and work there in the coming years. The work has already created vitally needed new jobs in a formerly impoverished area and led to an influx of businesses and commercial services catering to the needs of a new middle class of salaried professionals.

The work is being supervised by a state commission, which launched a national competition with the League of Kazakhstan Architects in 1996 to design the

overall concept and layout. Additional advice has come from architectural institutes, specialists and academics in Europe and Asia.

Other countries' experience has also been taken into account, notably the move from Bonn to Berlin, from Istanbul to Ankara and from Rio de Janeiro to Brasilia.

Attractive design

"The architects' model reminds one of a traditional Kazakh noble's white felt hat, ornamentally embroidered with the green of the city's plantations, the red of its tiled roofs, the turquoise of its lakes and the black and pearl lines of its motorways," wrote one local journalist when the design was shown to the press.

Critics, notably from the former capital and commercial center of Almaty in the southeastern part of the country, have been less enthusiastic. They point out that Astana is located in the most severe climatic zone of the country, on the windswept steppes, which have sub-zero temperatures and heavy snow in winter and extreme heat in the summer. The architects say they

have taken these factors into account. Buildings, including the new Presidential Palace and the Parliament, have been designed to block the wind, and industrial sites are located in the northeastern outskirts so that the prevailing winds carry the pollution away from the residential areas.

Two- and three-story housing is planned, rather than tower blocks, to promote private home ownership. Huge banks of tree "fences" will enclose the city, and the Yesil river, which cuts through the center, will be widened and surrounded by gardens to provide a focal point for leisure activities.

Visitors will have a hard time finding the capital on any existing map: The former name, Akmola, was only changed in early May. President Nazarbayev explained the change on state television by saying that the Kazakh word "Akmola" was open to misinterpretation by the local and foreign mass media (it can be translated either as "white plenty," or as "white tomb"). Astana, meaning "capital city," he explained, seemed more appropriate.

BUSINESS TRAVEL TIPS

The inside track on doing business in the land of the Silk Road.

It is important to remember that Kazakhstan is an independent state, with its own proud traditions going back to the ancient Scythians and the great Khanates of the 16th and 17th centuries. Viewing developments through the prism of its former provincial status in the Soviet Union is irrelevant today.

Language

Kazakh, which is related to Turkish, is now the official language, and its teaching is mandatory in the schools. Russian is still widely spoken, however, and it would be useful to have your business cards and correspondence translated into Russian. Hiring an interpreter is common practice and helps save time and misunderstandings. The use of English is increasing rapidly, particularly in government offices, business and banking.

Bureaucracy

A new generation of young, highly skilled, Western-oriented officials is taking over the upper echelons of government. Often they have shared the same schools or work experience and will refer you to their colleagues to help overcome bureaucratic difficulties.

Change has yet to reach the middle ranks, however, and the red tape demands for arbitrary payments and delays can prove frustrating, though the government is actively tackling the problem. For businesspeople, the State Investment Committee acts as a "one-stop shop" and provides a direct path through the red tape.

If your company is considering doing business over the long term, consider es-

tablishing your headquarters or a branch office in the capital, Astana. Exemptions from taxes and customs duties, plus other incentives, are available.

Travel

To obtain a visa, a letter from a sponsor within Kazakhstan is required and should be requested well in advance. The State Investment Committee is prepared to offer assistance in this area. In Almaty, a VIP reception service is available at the airport. Request this service from your hotel when you make your reservations. For onward travel to Astana, where government offices are relocating, advance reservations are necessary.

Accommodations and leisure

Almaty — still the country's main commercial center — now has two fully serviced luxury hotels, the Ankara Hotel & Towers and the Hyatt. These hotels offer business centers, which provide computers, e-mail and Internet access for businesspeople. A wide choice of restaurants is now available, serving European, Asian and Kazakh cuisine. The International Business Club is a lively watering hole where many business deals are made. In Astana, the choice is more limited, but the Yasur is favored by government officials and businesspeople. Don't forget to sample the caviar! Try to get out to the stunning countryside — a walk in the foothills of the Tien Chen mountains is one possibility if time is short. Even better is a stay in a guest house over the weekend. •

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ON-LINE RESOURCES

Embassy of Kazakhstan, London, UK

<http://www.zoo.co.uk/~kazakhstan>

Official resource for the latest news developments and background.

Kazakhstan Securities Market Development Project

<http://www.kazecon.kz>

Comprehensive, authoritative source for the latest in financial developments and in-depth reports on the economy, including the Information Centre of the Kazakhstan Press Club.

BISNIS Online

<http://www.itaiep.doc.gov/bisnis/bisnis.html>

BISNIS Online is the home page for the U.S. Department of Commerce's Business Information Service for the Newly Independent States (BISNIS), the U.S. Government's one-stop shop for doing business in Russia and the other states of the former Soviet Union. Includes a vast amount of information, country reports and useful links.

State Investment Committee

<http://www.kazinvest.kz>

Coming soon: The official Web site of the Kazakhstan State Investment Committee.

Almaty Business Communications Center

<http://www.almatybcc.kz>

A useful site established by a pan-European consortium led by the Danish Technological Institute

The Kazakhstan Institute of Management, Economics and Strategic Research

<http://www.kimep.kz>

Information on the Institute's educational programs and business services and on Kazakhstan.

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1997	10,401	444	6.26	3.19	
1996 reported	9,181	409	4.71	2.00*	
Change in net profit	+1,220	+35	+11.7%	+59%	

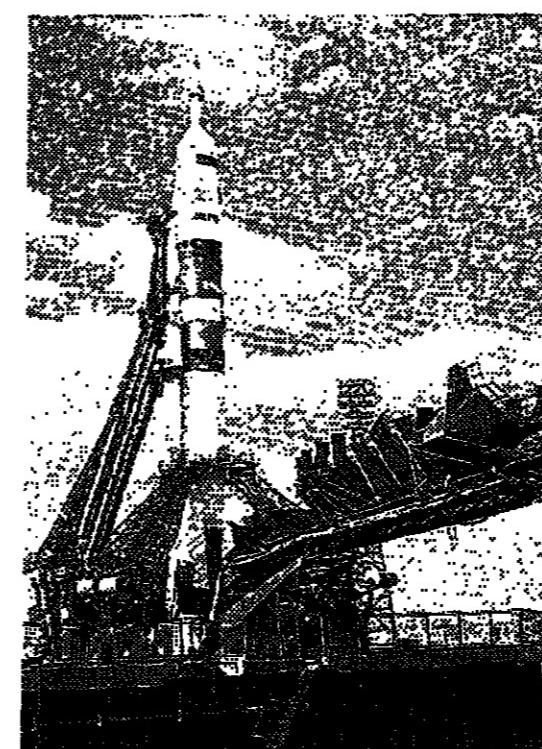
* Per share of 50 francs. The figure is based on the average exchange rate of 1 franc = 0.4033 US dollars. The figure is based on the average exchange rate of 1 franc = 0.4033 US dollars.

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INTERNATIONAL HERALD TRIBUNE, WEDNESDAY, JUNE 3, 1998

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Herald Tribune

INTERNATIONAL SPORTS

WEDNESDAY, JUNE 3, 1998

WORLD ROUNDUP

Big Day for Pantani

CYCLING Marco Pantani gave Italians what they had dreamed of for four years when he took the lead in the 17th stage of the Tour of Italy on Tuesday.

Pantani finished second in the demanding 215-kilometer (345-mile) stage in the South Tyrol, beaten by Giuseppe Guarini but triumphant as the new No. 1 by 30 seconds over Pavel Tonkov, a Russian.

After 12 days in the pink jersey of the overall leader, Alex Zulle of Switzerland slipped to fourth, 1 minute 1 second behind Pantani.

When Pantani attacked on the third of four Dolomite Mountains, Zulle had no answer and when Pantani reached the 2,214-meter (7,250-foot) summit of Passo di Sella, the final climb, Zulle was trailing by 4:37. (Reuters)

Miami Player No. 1 Pick

BASEBALL Pat Burrell, a University of Miami third baseman, was chosen by the Philadelphia Phillies as the No. 1 pick in baseball's amateur draft on Tuesday.

Burrell, 21, had a .426 average, 17 homers and 47 RBIs in 115 at-bats going into a game Tuesday against Long Beach State at the College World Series.

The Oakland Athletics got the second pick: a Michigan State left-hander, Mark Mulder, who was 6-6 with a 3.82 ERA for the Spartans.

The Chicago Cubs then chose Corey Patterson, an outfielder at Harrison High School in Kennesaw, Georgia. (AP)

Woods Exits Kemper

GOLF Tiger Woods has pulled out of the Kemper Open with a sore back, telling tournament officials that his back had stiffened on a flight Sunday night from Ohio to his home in Orlando. The back pain worsened as he was hitting golf balls during practice on Monday.

The event at the TPC at Avenel in Potomac, Maryland, begins Thursday.

Woods was not available for comment, and his status for the U.S. Open at the Olympic Club in San Francisco on June 18-21 remained unclear. (WP)

Galloping to Belmont

HORSE RACING A field of 10 to 12 horses is lining up for the Belmont Stakes on Saturday in New York, where a victory would make Real Quiet the 12th horse to sweep the Triple Crown.

"I don't mind a large field," said Bob Baffert, who trains Real Quiet. "I've got the best horse, and I know he can get the distance of a mile and a half."

Baffert has won four of the last five Triple Crown races — last year's Derby and Preakness with Silver Charm and this year's Derby and Preakness with Real Quiet.

Wayne Lukas, who has won 10 Triple Crown races, is likely to run two horses — Grand Slam and Yarrow Brae — in the Belmont. (LAT)

An Unranked Graf

TENNIS Steffi Graf, who has spent more time as the No. 1-ranked woman than anyone else, will drop out of the WTA Tour rankings next Monday.

Graf, the winner of 21 Grand Slam singles titles, has played only two tournaments since she was beaten last year at the French Open. A player must play at least three in a year to stay ranked.

The German, No. 60 in the latest WTA weekly rankings, held No. 1 for 374 weeks. Graf, who will be 29 later this month, last held the No. 1 spot on March 30, 1997.

Graf's recent comeback attempt has faltered since she had reconstructive surgery on her left knee. (AP)

Hingis Ousts Williams For Trip to Semifinals

Moya Conquers Rios, the No. 3 Seed, in 4 Sets

By Christopher Clarey
International Herald Tribune

picator in the fourth round, stretching Rios to four, taxing sets.

"I was a little bit tired from the last match," Rios said, "but Carlos played great."

Rios was playing rather well himself after winning the second set and jumping out to a 4-0 lead on Moya's first service game of the third. Moya's forehand, so effective throughout the match, was sputtering badly.

"I was totally down, and he was playing so good," Moya said. "At that level, he's the best in the world. I looked at my coach, like 'Tell me what to do.' And then everything changed suddenly."

Moya rallied to hold serve and then broke Rios in the next game, but the Chilean did not become the French Open favorite without good cause. He lifted his game, but at 4-4, 15-15 in the final set, he made a rookie mistake.

When Moya stretched wide for a backhand and sliced the ball back across the net, Rios was sure it had bounced twice. He let it land for a winner instead of volleying it into the open court. Rios protested vehemently, although television replays would prove him wrong, and then made two consecutive forehand errors to lose his serve.

Though Rios would save three match points in the next game, Moya refused to let him escape, finally securing victory with a swinging forehand volley that Rios knocked into the net with his backhand.

The 12th-seeded Moya is now the

highest seeded men's player remaining in the draw and will face another Spaniard, the No. 15 seed, Felix Mantilla, in the semifinals Friday.

It will be the first Grand Slam semifinal for Mantilla, who defeated the former French Open champion Thomas Muster, 6-4, 6-2, 4-6, 6-3. If the No. 14 seed Alex Corretja wins his quarterfinal on Wednesday, three of the four semifinalists will hail from Spain.

"You have to like our chances," Moya said.

After Tuesday, one has to like Hingis' chances, as well. She did not play a perfect match against the taller, stronger and tactically inferior Williams, who had beaten her twice already this season on hard courts.

But the Swiss 17-year-old was poised and relentlessly opportunistic, particularly off her better backhand wing, which the American insisted on testing repeatedly. All in all, Hingis seemed to have more trouble with the line-judging than with Williams's crowd-wowing power. Though Williams, not Hingis, is the player known for her serve, the Swiss actually finished with more aces and service winners on this windswept afternoon.

She now has a 6-2 overall record against Williams, and a 2-0 record against her on clay after beating her in three sets in the final of the Italian Open last month.

"Now, I'm in better shape than I was ready," said Hingis. "I'm feeling ready."

Williams, the older of the two 17-year-olds but less experienced on clay, hopes to be ready soon.

"I suppose I got a little too excited yesterday," Moya said.

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set before it was her turn to lose seven straight games.

In the end, Novotna's forehand proved just a bit too unsteady, and Seles' groundstrokes from inside the baseline just a bit too overpowering.

The discouraging news for the American is that she now must face Hingis, who defeated her in three sets at Roland Garros in last year's semifinal.

Whether she wins or loses, Seles made it clear that she is playing for herself. "My dad believed whenever I stepped on the court, it was just for me," she said. "I think of him every day, but for me, it's a tennis match, it's a tennis tournament."

The other semifinal will match Davydenko against a two-time French Open champion, Arantxa Sanchez Vicario of Spain, who defeated the unseeded Patty Schnyder of Switzerland, 6-2, 6-7, (5-7), 6-0. Sanchez, now 26, is the oldest player left in the draw, but despite all the press clippings and the television interviews, the youngsters on the women's tour have yet to live up to their celebrity in the biggest events. At the Australian Open, Hingis was the only teenager in the semifinals, and she is the only one in the semifinals at Roland Garros, too.



Martina Hingis celebrating her victory Tuesday over Venus Williams in a quarterfinal at Roland Garros. (Philippe Tajan/Reuters)

Kuerten Disqualified From Doubles Match

International Herald Tribune

PARIS — Gustavo Kuerten, the Brazilian who won last year's men's singles title at the French Open, was disqualified from the men's doubles event Tuesday for throwing his racket in the direction of the chair umpire, Bruno Rebeuh.

Kuerten and a fellow Brazilian, Fernando Meligeni, had just lost the first-set tie-breaker of their quarterfinal against Patrick Rafter of Australia and Jonas Bjorkman of Sweden when the incident occurred.

Meligeni had been protesting line calls throughout the set.

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Moya has proved that he is a major threat on every surface but grass, and with his powerful first serve, which is particularly effective down the middle, he wins more easy points than his clay-court-loving, topspin-whipping peers in毛球。

Moya had hardly been overwhelming since his convincing victory in Monte Carlo, losing to Brett Steven early at the Italian Open, but that loss may have worked to his advantage, because he looked particularly fresh on Tuesday as he beat the Chilean, 6-1, 2-6, 6-4, 6-3 victory. "I mean it's not like money, you know."

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Weighs Report
acres in Congo

Dodgers Say 'Sayonara' To Nomo

The Associated Press

LOS ANGELES — At first, Hideo Nomo shrugged off the trade rumors, but after a while they bothered him enough that he decided it was time to say sayonara to the Los Angeles Dodgers.

"It's true that I definitely needed a chance of scenery, a change of environment," Nomo said through an interpreter Monday at a news conference called to announce that the Dodgers and the Japanese pitcher were parting ways. "What will be best for me now is to go to a team that needs me, that needs my pitching."

The Dodgers designated Nomo for assignment, removing him from the team's 40-man roster immediately and bringing a sudden end to "Nomomania," or what was left of it, in Los Angeles.

The move left the Dodgers with 10 days to either trade or assign Nomo, or seven days to place the 29-year-old right-hander on unconditional release waivers.

After his most recent outing — an ineffective stint against Cincinnati on Saturday — Nomo said rumors that he might be involved in a trade for Seattle's Randy Johnson had "no effect on me at all."

But the Dodgers' general manager, Fred Claire, said that Nomo's agent, Don Nomura, called him Saturday night and requested a meeting Sunday, in which he told Claire that Nomo wanted to play elsewhere because of the speculation.

Nomo was the 1995 NL Rookie of the Year, and recorded 500 strikeouts faster than any other pitcher in major league history, accomplishing the feat in 444½ innings.

In 1995, his first season, he was 13-6 with a 2.54 ERA and 236 strikeouts.

This year Nomo, who underwent arthroscopic surgery on his pitching elbow last fall, is just 2-7 with a 5.05 ERA although he struck out 73 in 67 innings and pitched two complete games.

■ Japanese Blame Dodger Greed

Valee Reitman of the Los Angeles Times reported from Tokyo:

It was only three years ago that Japanese huddled around television sets to watch their new hero, Hideo Nomo, become the first Japanese superstar in the major leagues.

Now, stunned that their hero's time in a Los Angeles Dodger uniform has been cut short, many Japanese blame cold-hearted greed and callousness for his departure from the Los Angeles team.

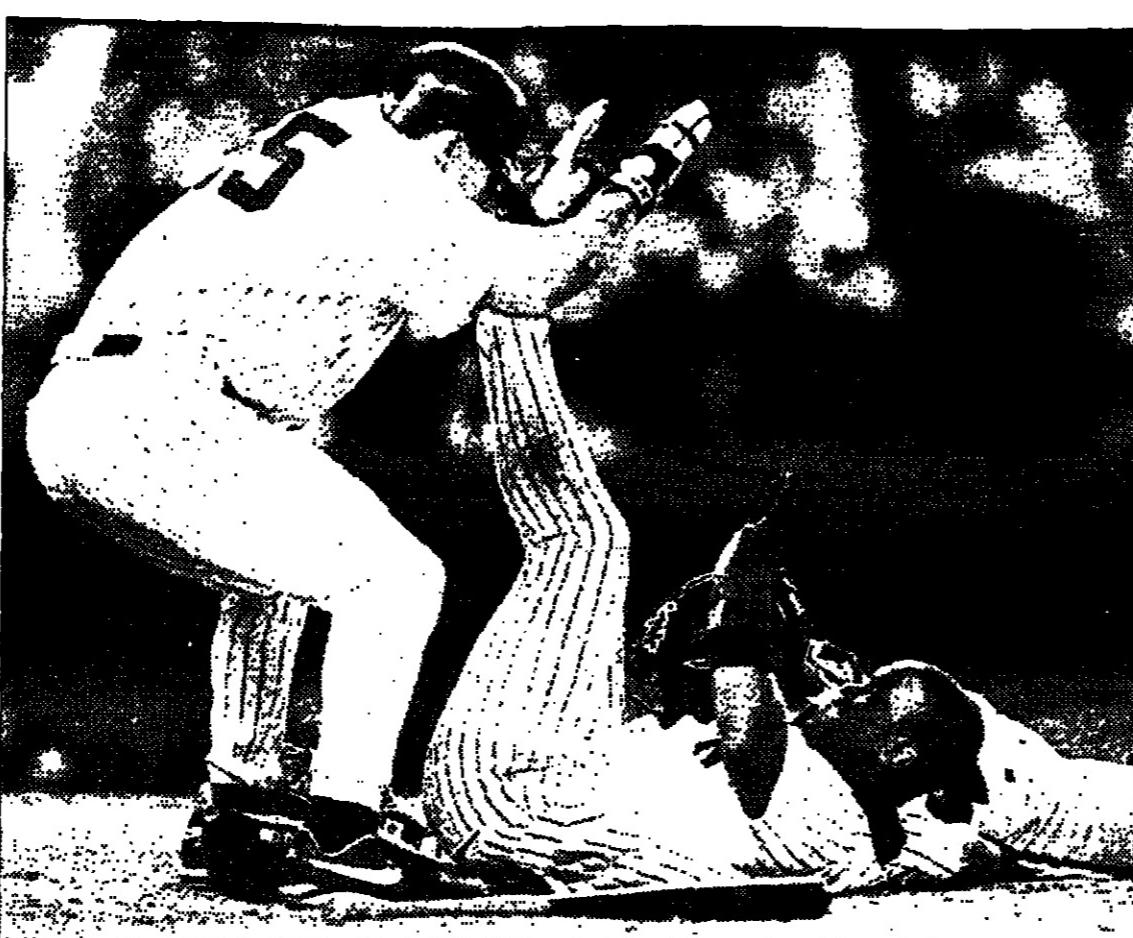
"Now that Peter O'Malley is gone, the organization has changed — it has become a 'money first' team,'" an NHK public television commentator told viewers Tuesday morning after the news about Nomo was announced.

Kazuo Ito, a baseball commentator, agreed. "I was so surprised at comments from the Dodgers that they could fire him if there was no trade," Ito said. "I never thought they'd go that far."

Mostly, people here said they felt sorry for their hero, who they said had contributed too much to the Dodgers only to be let go.

But Shoichi Kaneda, a former Yomiuri Giant star, the Dodgers' move "courageous."

"With Nomo's current performance, he should have been sent to the minor leagues a long time ago," Kaneda said. "In the U.S., players who don't contribute to performance are sent to other teams. Nomo has to appreciate that."



Tim Raines of the Yankees reaching up from home to accept a high five for scoring the winning run.

Lower-Back Spasms Stop McGwire

The Associated Press

Opposing pitchers cannot stop him, oversized ballparks cannot hold him.

No, perhaps the biggest obstacle blocking Mark McGwire's bid to break Roger Maris's home run record is something more personal — his health.

The St. Louis slugger felt lower back spasms while batting in the first inning and was taken out of the Cardinals' 3-2 loss to the San Diego Padres on Monday night.

McGwire, who leads the major leagues with 27 homers, said he did not expect to play in the Cardinals' three-game series at Los Angeles that began Tuesday night.

"It's nothing to be concerned about," McGwire said. "It probably won't be more than a few games."

He walked off under his own power after hitting a dribbler down the first-base line in the first inning off Sterling Hitchcock (3-0).

"I took an awkward swing and I felt a twinge," McGwire said. "I know my back. I'm not going to push it. I've dealt with it every year since '89. I won't miss many games."

Pirates 4, Mets 3 Jason Schmidt won his seventh straight decision and stopped New York's nine-game winning streak.

The visiting Mets had not lost since acquiring Mike Piazza last month. His home run in the eighth spoiled the shutout bid by Schmidt (8-1), who is tied with Atlanta's Greg Maddux as the league's top winner.

Indians 2, Tigers 0 Jason Wright pitched a three-hitter for his first career shutout as Cleveland won at Detroit.

Manny Ramirez homered for the Indians, 3-0 against the Tigers this year and 39-11 since the start of the 1994 season. The Indians have won 13 of 17 overall and eight of nine on the road.

Red Sox 5, Blue Jays 6 Nomar Garciaparra hit a tie-breaking homer in the ninth inning and Oakland's bullpen preserved the lead.

Stairs hit the first pitch from rook-

ie Eric Milton (3-5) over the right-field fence to put the host Athletics ahead, 5-4. They made it 6-4 in the eighth on Mike Macfarlane's homer and added two runs in the ninth on Scott Spiezio's homer and Stairs's RBI single.

Jeremy Burnitz hit a two-run homer.

Phillies 6, Expos 2 Gregg Jefferies homered early, then hit a tie-breaking single in the eighth inning as host Philadelphia ended a three-game losing streak. Mike Maddux (1-2), Greg's older brother, was the losing pitcher as Montreal dropped its third in a row.

Cubs 10, Marlins 2 Sammy Sosa, back in the lineup after missing

BASEBALL ROUNDUP

three games because of a sprained thumb, hit two home runs to help Chicago win at Wrigley Field,

Diamondbacks 6, Rockies 4 Andy Benes pitched strongly into the ninth inning at Coors Field, and Arizona began Tuesday night.

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SPORTS

Why Jordan Can Defy Logic

Statistics Favor Utah, but Chicago Has a Trump Card

Washington Post Service

HERE'S absolutely no tangible reason to pick the Chicago Bulls over the Utah Jazz in the National Basketball Association finals. Not a single one.

In the last 30 years, no team has beaten another team back-to-back in the finals. Not Bird's Celtics, not Magic's Lakers. Nobody. If that alone isn't convincing enough that Utah should be favored to win, consider that while the Bulls are probably hooked up to TVs recovering from that seven-game war with the Pacers, Utah — having swept the Lakers for the Western Conference championship — is in the midst of what will be a 10-day vacation by the time the finals begin Wednesday.

Last year, the Bulls needed home-court advantage, Brian Williams, Jason Caffey and a slightly awe-struck Utah team to win a six-game series in which three of the games were last-second thrillers. This year, Utah has home-court advantage, the Bulls don't have Williams or Caffey to guard Karl Malone. And the Utah players, having won four of the last five games against Chicago, are just dying for another shot at the Bulls. Malone, who seems to have already worked himself into a lather, said earlier this week. "Things will be different this year. We're not in awe of the Bulls and we are confident we can beat them."

You want more? Dennis Rodman might make a lot of power forwards crazy around the NBA, but he's scared to death of Malone. Mailman owns The Worm like Jordan owns Lenny Wilkens. The Bulls, who had problems with Indiana's reserves, now face a Utah team that utilizes 11 players every night. If you think Chicago had trouble with Indiana's Travis Best, wait until the Bulls get a load of John Stockton's backup, Howard Eisley, who some nights plays nearly as many minutes as the great Stockton.

Ninety percent of the stuff you can point to favors the Jazz in this series, and I'm ignoring it all to pick the Bulls in seven games.

Don't ask. You know why.

Chicago has the guy wearing No. 23, Michael Jordan. Him. And it's still his time, like it once was Babe Ruth's time and Ali's time.

Logic says Utah, Jordan has defied logic all of his career. It isn't logical that two guys — Jordan and Scottie Pippen — can have the 10 other players run around as if they're playing musical chairs, yet the Bulls still managed to win five championships in seven seasons.

Logic says a team that shoots 38 percent from

the field and 58 percent from the foul line can't win Game 7, so see how logic can mislead you?

You plot this thing out on paper and Utah can't lose. Malone might average 40 points a game this series. Jerry Krause, the Bulls' general manager, got rid of the only wide-body, Caffey, who could help Rodman gird against Malone.

The Bulls have nobody who can check Malone. Greg Ostertag is now noticeably better than Luis Longley. Stockton, for my money, is tied for the greatest 6-foot player ever with Isiah Thomas. Shandon Anderson and Bryon Russell are quicker and more athletic than anybody the Pacers have.

So what's Chicago's answer for all this? Jordan. One really good thing happened to the Bulls in their melodramatic tug-o-war with Indiana: The Bulls found out they could win the most pressure-packed of games without Jordan's scoring 50.

They discovered they could win a series when Jordan misses jumpers, when he misses free throws, when he slips and falls with the game on the line. That's like discovering the basketball equivalent of the secret of the universe. They know, beyond shadow of a doubt, that as long as Jordan's out there grabbing rebounds, passing, playing defense, driving to the lane and getting fouled, they're in the ball game no matter the opponent.

Likewise, Jordan probably feels better today about his running mates than at any point in his NBA career.

Strangely enough, the Bulls might be able to play pressure-free basketball for the first time because Utah, no matter what oddsmakers say, figures it ought to win, what with all this rest and the promise of four games at home inside Delta Center. A lot of people expect the Bulls to win, yes, but a whole lot don't. And while losing to Indiana would have been a shocking disappointment, going down to Stockton and Malone is nothing to be embarrassed about.

But now, here they are back in the NBA Finals, where no modern-day team feels more at home, where no player has excelled like the great showman Michael Jordan, who — given his sense of theater — is likely to make us forget with his final encore that anyone else was ever sharing the stage.

NBA FINALS ON TV

According to the National Basketball Association Entertainment, Inc. the following countries and broadcasters will be televising the 1995 NBA Finals either live or on tape delay. Please consult local media for the time and day of the telecasts.

EUROPE

Americana RTR/Stir TV

Australasia RTVA/STAR TV

Canada CTV/CAN/AFRTS

Belgium BNT

Bulgaria and Herzegovina OBPN

Croatia HTV/AFRTS

Czech Republic AFRTS

Estonia Kanal 24

Finland Channel 4/Consel+Gul

France Canal+AFRTS

Greece SuperTV AFRTS

Hungary TV3

Iceland Chord/AFRTS

Italy Rete 4/AFRTS

Latvia Lattelecom/MTV/Canal+Horizon

Malta TV 10/AFRTS

Norway TV 2/AFRTS

Portugal TVC/Canal+Horizon

Russia TV-1000/AFRTS

Slovenia RTV/SLO

Spain Canal+AFRTS

Turkey Kanal D/AFRTS

United Kingdom Channel 4

Yugoslavia TV Beograd

AFRTS

ASIA/OCEANIA

Australia Network 10

China Television Oriental

Hong Kong ATV

Indonesia ASTRA/TVRI/AFRTS

Malaysia Astro/TV3/AFRTS

Philippines GMA-TV/AFRTS

Singapore TV 12/AFRTS

Taiwan TVBS/AFRTS

Zimbabwe ZBC/AFRTS

SOUTH AMERICA AND CARIBBEAN

Argentina Arbol/ATC

Bolivia RBT/AFRTS

Brazil RedeTV/AFRTS

Chile TVN/AFRTS

Colombia Caracol/AFRTS

Costa Rica Telecosta/AFRTS

Dominican Republic Telesistema/AFRTS

Ecuador TVC/AFRTS

French Guiana TVG/AFRTS

Guatemala TVG/AFRTS

Honduras Canal 10/AFRTS

Maracaibo TV/AFRTS

Mexico TV Azteca/AFRTS

Nicaragua TeleNicaragua/AFRTS

Panama TVP/AFRTS

Paraguay TVP/AFRTS

Peru TV Perú/AFRTS

Uruguay TV Uruguay/AFRTS

Venezuela Venevisión/AFRTS

ESPN International will broadcast the games in Argentina, Antigua, Argentina, Australia, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Dominican Republic, El Salvador, French Guiana, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Uruguay, Venezuela, and Venezuela, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, Uruguay, Venezuela and Virgin Islands.

DENNIS THE MENACE</

OBSERVER

Scouting Up Ahead

By Russell Baker

NEW YORK — The baby-boom generation is now looking down the gun barrel of 50 and worried about what to expect. At its request, I have gone ahead to scout the territory. This is what's up there:

The 50th birthday: You wake feeling wonderful. This is because you are still alive.

51st birthday: You consider hair transplants or, if female, liposuction.

53d: The doctor says it's only natural for knees to creak at your age, the swine.

55th: After rising and while facing the mirror, you think: "Oh, to be 50 again!"

56th: Have you ever felt better? You sure have.

58th: "Oh, to be 55 again!"

59th: Remember how tired and worn-out your parents looked at this age? By comparison, you don't look a day over 35. Maybe 49.

60th: Lovely, lovely! The big six-oh, and you don't feel a bit worse than you did when you were still in your 50s yesterday.

61st: It is amazing how unfaded you look by candlelight. And the old drain — brain, that is — has it ever been sharper, more alert, quicker to grasp Frankenstein's theory of relativity or coin a side-splitting catechism — solecism? — prism? — fanaticism? — Manicheanism? — what's the word I'm looking for?

62d: Witticism.

63d: You've had better birthdays. A lovely young woman calls you "Pops." If you are female, a charming young man — great pecs and abs! — puts an arm out to save

you from stumbling into a pile of lawn fertilizer and says, "Watch your step, mother."

65th: You realize that there are worse things than being 65, but you prefer not to think of them.

66th: Waking, you feel astonished, and say to your wife, "When I was 21 I never expected to be a 66-year-old man." Or, if female, "I've been 21 and now I'm 66, and when I remember that at 21 I made the obligatory youth journey to Woodstock, there's a lot to be said for being 66."

68th: So you're 68. All sorts of people have been 68. Methuselah. If anyone telephones, say you're out.

69th: You're tired of being a liberal. What's more, you don't even feel liberal anymore. You must have been crazy to think that was a good time you had in that mess at Woodstock. You decide to become a right-wing nut. Alternatively, if tired of lifelong conservatism, you become a left-wing extremist. Anything to show you're still rambunctious.

70th: You hope the children don't drop by today. They always ask if your arteries, kidneys, liver and lights are failing, and whether it isn't time to surrender your car keys.

71st: You decide not to get down on your knees all day long so you can feel wonderful about not having to ask somebody to help you get up.

72d: What's this! The children's hair gray? It makes you feel old for the first time.

73d: How wonderful being old enough to see your teenage grandchildren abuse your children the way your children used to abuse you.

More after I scout further ahead.

New York Times Service

The Long, Hard Road of a Movie Director

By Betsy Sharkey

New York Times Service

LOS ANGELES — There is a certain symmetry in the fact that Eric Schwab's first film as a director, "Green Fog," which he also wrote, will be made in Thailand in the fall. It was in Thailand a decade ago that Schwab, at 30, began an unusual apprenticeship with the director Brian De Palma. At that time, De Palma was filming "Casualties of War," his Vietnam morality play, with Schwab serving as second-unit director, supervising scenes that did not require the movie's primary cast members.

But it was as a boy growing up in Encino, California, in the shadow of Hollywood, that Schwab first dreamed of becoming a filmmaker, turning in short films rather than term papers in high school and later studying film in college and graduate school. As Schwab learned, however, the distance between dream and reality can be great.

In a world in which timing is everything, he found himself among the last of a generation of aspiring filmmakers who would become directors (or wouldn't) only after paying dues for years in lesser jobs on studio movies.

Just after him came a host of 20-something auteurs who discovered a faster track into the directing ranks on the strength of small, independently produced films often financed by family credit cards. Unlike Quentin Tarantino ("Pulp Fiction"), Robert Rodriguez ("Desperado") and Noah Baumbach ("Kicking and Screaming"), to name a few who have made the leap from obscurity relatively quickly, Schwab's shot is coming after years of being tested.

For those who find themselves on the more traditional Hollywood path, getting that first shot at directing a movie is most often a tortuous journey distinguished by many valleys and few peaks. Beyond mere talent and experience, a career can be made or broken by the relative strengths of producers, agents and actors, and the whims of the industry as a whole.

In 1990, when Warner Brothers signed on Schwab for another movie that everyone thought would be the first he would direct, a producer friend dropped him a note that said, "Congratulations, now you can have a life in hell like the rest of us."

Schwab's experience serves as a cautionary tale in how to survive and eventually prevail in a flavor-of-the-day world that will, as his agent, David Warden, contends, em-



Sara Kruklas/The New York Times
Eric Schwab with Brian De Palma during filming of "Carlito's Way" in 1991.

brace bad hot over good cold in a heartbeat.

In the last seven years, five movies have come perilously close to putting Schwab in the director's chair. Three of them unraveled completely; there is still a chance that the fourth will be made, and the fifth is "Green Fog."

Despite this history of troubled endeavors, Schwab is, at the age of 40, quite successful by most standards. As a well-respected second-unit director, he is paid handsomely and is much in demand. It is a position that allows him to take off a year at a time to pursue directing projects. But filming only pieces of movies, even pieces that require budgets larger than his first film will have, no longer satisfies him.

"I want to tell the whole story," he said recently. Whether Schwab will ultimately succeed in his quest, a director whose work is seen to add to the art and craft of filmmaking, may well rest with "Green Fog," a fact of which he is painfully aware.

He is determined not to blow it. Schwab got his first job in the motion-picture industry in the late 1970s, as a production assistant on "Golden Girl," a forgettable movie starring Susan Anton as an Olympic

hopeful. From the beginning, his strategy was to pepper directors, line producers, directors of cinematography and set designers with as many technical questions as they would tolerate.

"The first artistic film that I worked on where I could see more thought was put into this than just how to make money was 'True Confessions,'" said Schwab, referring to the 1981 thriller directed by Ulu Grosbard and starring Robert De Niro and Robert Duvall. Schwab was employed as a location scout, but he managed to strike up a relationship with the director and the production designer.

"It was great because both of them liked me and involved me in the creative side of how the film was going to look," he said.

After that, he would take jobs only on films being made by people with whom he wanted to work — even if this often meant having to accept lowly positions, at lowly salaries.

For the jungle scenes in "Casualties of War," Schwab was given the choice of shooting with a Thai crew or importing a foreign crew. He opted for the Thai crew because it was less expensive, and that meant he could shoot more film and remain within

the budget he had been given. "I was able to do shorts like I'd wanted to do my whole life," he said. "I experimented with different speeds and different types of lenses."

Schwab has worked with De Palma since "Body Double" in 1984, serving as second-unit director for "The Bonfire of the Vanities" (1990), "Carlito's Way" (1993) and "Mission: Impossible" (1996), meeting ever-more-complex requirements along the way. De Palma believed it was time for Schwab to direct his own film; after the younger man managed to secure an extraordinarily difficult and memorable shot for "Bonfire" that captured in a single frame the setting sun, the Empire State Building and a Concorde landing at Kennedy airport.

With every possible directing project that Schwab has explored in recent years, De Palma has been adviser, mentor and friend, and he will probably serve as an executive producer on "Green Fog." He has read each of the scripts Schwab has considered, directed, and they have discussed casting, producers — the entire ballet of making a film.

"When I was working on one film that I was 100 percent sure was going to be made, Brian kept telling me, 'don't count on it,'" Schwab recalled. "I said: 'Why? You don't think it's a good idea?' He said: 'No, it's not that. I just know from experience you can't count on any one film working out. You've got to get a couple of things going because you never can tell which one is going to click.' That is a lesson Schwab has learned only too well.

After the Concorde shot in "Bonfire," agents and movie executives suddenly wanted a piece of his life. He was taken on by an agent, and several projects burst into possibility. But they disappeared in the haze. Then came the search for a new agent, another false start and, finally, the lurch into "Green Fog."

Among the many ideas about movie making that De Palma has imparted to Schwab, the notion of a film's immortality is the central pillar. Simply put, don't do something that you're not proud of and, by extension, that doesn't push filmmaking forward.

"Some people get into film now for the big killer salaries," Schwab said. "When I went into film, you went in spite of everything else. You went against the wishes of your parents, against the wishes of your friends. I did it because I had a love of film and I had to do this. For me there was nothing else."

PEOPLE

DNA tests conducted more than 150 years after the death of a man who claimed to be the son of King Louis XVI of France have revealed him as an impostor, according to a study released Tuesday. Karl Wilhelm Naundorff, who died in the Dutch town of Delft in 1845, was the most important of the many claimants who came forward in the early 19th century arguing they were Crown Prince Charles Louis, the son of Louis XVI and Marie-Antoinette. Two years after Louis and Marie-Antoinette were guillotined in 1793 during the French Revolution, Charles Louis died of tuberculosis in the capital's Temple prison at the age of eight. But stories persisted that the young prince had been spirited away from his cell. Scientists at the Catholic University in Leuven, Belgium, in a study published in the European Journal of Human Genetics, said the results of extensive DNA tests "strongly favor the theory that Naundorff is not Louis XVII." The DNA testing was conducted on hair and bone samples of Naundorff and on hair samples from two sisters of Marie-Antoinette. Naundorff's tomb in Delft, Netherlands, bears the inscription: "Here lies Louis XVII, Duke of Normandy, King of France and Navarra."

Scott Weiland, lead singer of the Stone Temple Pilots, was arrested as he left a housing project in New York City with about \$100 worth of heroin, the police said. Weiland, 30, was charged with trespassing and drug possession Monday and that night's show at the Irving Plaza club was canceled. The

singer was arrested in May 1995 in California, when police officers found cocaine in his car and heroin in his wallet. In April 1996, a judge ordered him to spend four to six months at a drug treatment center, which put the band's U.S. summer tour on hold.

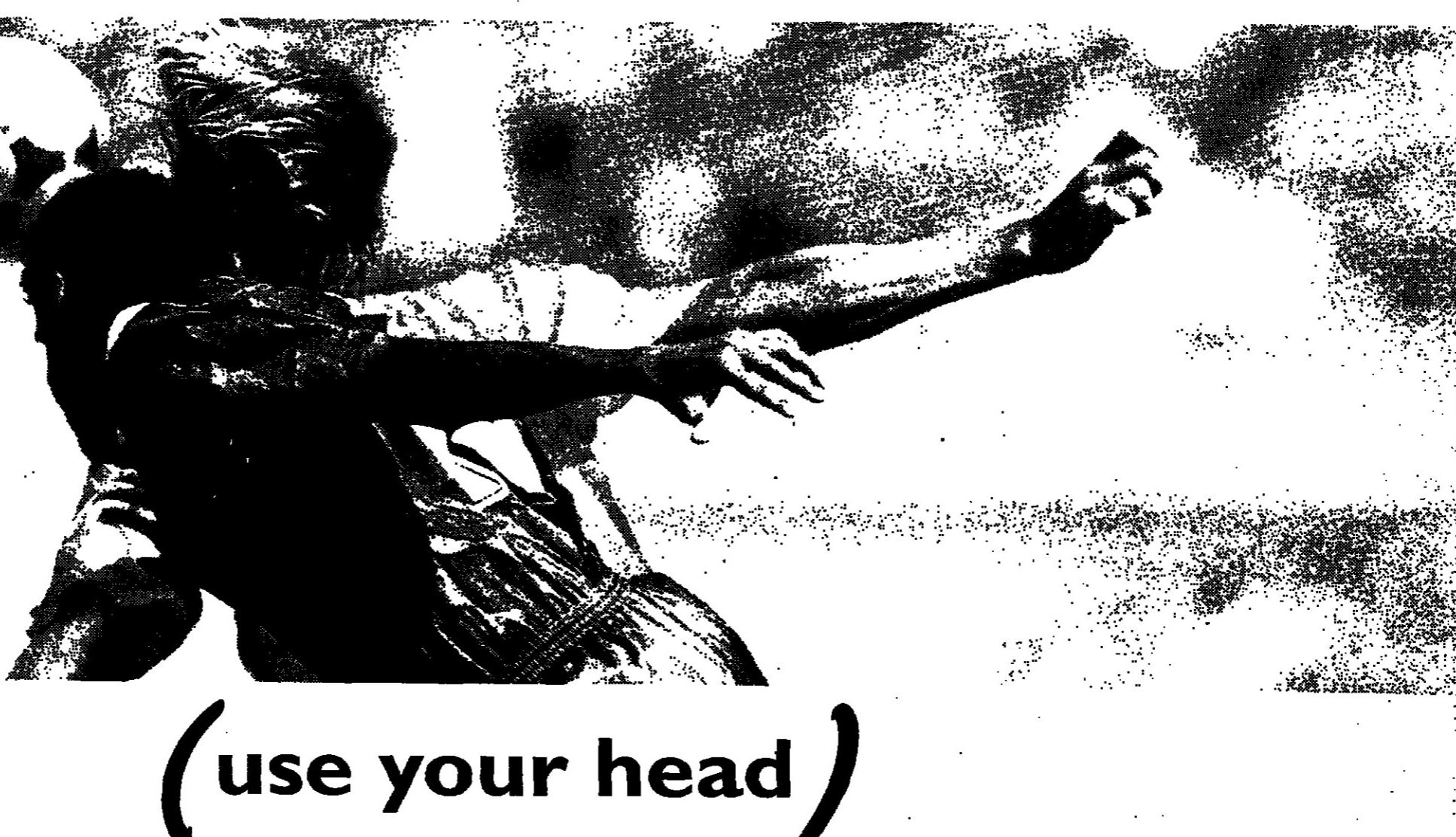
The Museum of Contemporary Art in Chicago has chosen Robert Fitzpatrick, dean of the School of Art at Columbia University since 1995, as its new director. Fitzpatrick, 58, oversaw the creation of EuroDisney and was president of the California Institute of the Arts from 1975 to 1987 and the director of the 1984 Olympic Arts Festival in Los Angeles, which attracted more than a million visitors in its 10-week run. He is to take over in September, becoming the sixth director in 31 years at the museum, which moved into a new 151,000-square-foot building two years ago. Fitzpatrick succeeds Kevin Consey, who resigned in November.

Iran plans to put the complete works of the late spiritual leader Ayatollah Ruhollah Khomeini on the Internet, an official announced. Hamid Ansari, head of the institute that is publishing Khomeini's writings, said 210 works in Persian and 107 texts translated into 16 languages would be made available on the web, the Iranian news agency IRNA reported. Ansari did not say when the Internet service would start and offered no further details.

The Spice Girls have gone into hiding at Elton John's mansion on the French Riviera following the departure of Geri Halliwell, a.k.a. Ginger Spice, the Sun tabloid reported Tuesday. The remaining four Spices are scheduled to proceed with a tour of 40 cities in North America in two weeks without Halliwell, but many in the music world wonder whether the group will survive her defection.

Three world premieres, four U.S. premieres and international feature and documentary competitions are all part of the inaugural Newport International Film Festival, opening a six-day run in Newport, Rhode Island. Consisting of 75 screenings in all, the event began Tuesday with an attraction fresh from the Cannes International Film Festival: "The Mighty," starring Sharon Stone, Gillian Anderson and Gena Rowlands.

When Time magazine put together its list of the 20 most influential artists and entertainers of the century, they picked Elvis Presley over Frank Sinatra. Then the "60 Minutes" reporter Mike Wallace stepped in on behalf of O'Blue Eyes, calling up to lobby Walter Isaacson, Time's managing editor. Wallace was working with Isaacson on a special show for CBS about the list. After Wallace's haranguing, Time switched to Sinatra, succumbing to the argument that the crooner had a greater influence on personal style.



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—G. Bush

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